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EDITED TRANSCRIPT

ADM - Q3 2013 Archer Daniels Midland Company Earnings Conference Call

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OVERVIEW:

Management discussed 3Q13 results, reporting net earnings of $476m or $0.72 per diluted share.

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CORPORATE PARTICIPANTS

Case McGee *Archer Daniels Midland Company - VP of IR*

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

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

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

CONFERENCE CALL PARTICIPANTS

Ken Zaslow *Bank of Montreal - Analyst*

Ryan Oksenhendler *BofA Merrill Lynch - Analyst*

Robert Moskow *Credit Suisse - Analyst*

Cornell Burnette *Citigroup - Analyst*

Farha Aslam *Stephens Inc. - Analyst*

Adam Samuelson *Goldman Sachs - Analyst*

Mike Piken *Cleveland Research Company - Analyst*

Tim Tiberio *Miller Tabak and Company, LLC - Analyst*

Vincent Andrews *Morgan Stanley - Analyst*

Diane Geissler *CLSA Limited - Analyst*

Ann Duignan *JPMorgan - Analyst*

Eric Larson *CL King & Associates - Analyst*

David Driscoll *Citigroup - Analyst*

PRESENTATION

Operator

Good morning and welcome to the Archer Daniels Midland Company third-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, Mr. Case McGee, Vice President, Investor Relations for Archer Daniels Midland Company. Mr. McGee, you may begin.

Case McGee *- Archer Daniels Midland Company - VP of IR*

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

For those following the presentation, please turn to slide 2 -- the Company's Safe Harbor statement, which says that some of the comments constitute forward-looking statements that reflect management's current views and estimates of future economic circumstances, industry conditions, Company performance, and financial results. Statements are based on many assumptions and factors, including availability and prices of raw materials, market conditions, operating efficiencies, access to capital, and actions of government.

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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.

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 the drivers of our operations performance, and provide an update on strategic initiatives. Then they will take your questions.

Please turn to slide 3. I will now turn the call over to Pat.

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

Thank you, Case, and welcome, everyone, to our third-quarter call. This morning, we reported third-quarter net earnings of $476 million or $0.72 per share on a diluted basis. Our adjusted EPS was $0.46 per share. Segment operating profit was $606 million. The team delivered solid operating results, despite the lingering effects of the 2012 US drought. Oilseeds performed well, particularly in North America and in South America. Corn benefited from improved ethanol margins, and Ag Services managed effectively through the transition to the new crop.

Looking forward, as record global crop supplies refill the pipeline, we will employ our efficient network to meet strong demand from customers around the world. I'll now turn the call over to Ray.

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

Thanks, Pat. And good morning, everyone. Slide 4 provides some financial highlights for the quarter, which I'll run through briefly. Adjusted EPS for the quarter was $0.46 per share compared to $0.53 last year. Segment operating profit was $606 million compared to last year's $498 million. Last year's results included a $146 million impairment charge related to our investment in Gruma.

Our effective tax rate for this quarter was 32%, which is higher than the 29% rate that we booked in the second quarter. The higher effective tax rate this quarter is due to some adjustments to discrete items in our book tax expense of $12 million, and a resultant true-up of our prior quarter tax rates to our estimated calendar year tax rate. For forecasting purposes, you should assume that we will finish up calendar year 2013 with an average tax rate of about 30%.

Our trailing four-quarter average adjusted ROIC of 5.7% was 50 basis points below our weighted-average cost of capital of 6.2%. During the third quarter, our 5.7% adjusted ROIC was consistent with the second quarter adjusted ROIC, but a WAC of 6.2% is up 50 basis points from the second quarter, and up 60 basis points from last year, due to a combination of higher interest rates, stronger ADM stock price, and a more delevered balance sheet, which I will review shortly. Juan will provide some perspectives for our business in the fourth quarter, but we do expect the ROIC versus WAC spread to start turning in the fourth quarter, with the quarterly ROIC over WAC spread to be solidly positive from improvements in earnings, and an invested capital base benefiting from our focus on cash flow generation, although the four-quarter trailing average ROIC in the fourth quarter may be closer to WAC.

On chart 18 in the appendix, you can see the reconciliation of reported earnings to adjusted earnings for the quarter ending September 30. For this quarter, we had a LIFO credit of $298 million or $0.28 per share. In addition, we had mark-to-market valuation gains on foreign currency hedges of $26 million or $0.02 per share related to our planned purchase of Grain Corp. We also had impairment charges of $23 million on several assets, worth about $0.02 per share. And we had a quarterly tax rate adjustment of $0.02 per share related to truing up the first and second quarter tax rates to the estimated calendar year 2013 rates.

Slide 5 provides an operating profit summary in the components of our Corporate line. Juan will talk about the segment results in his update, but I'd like to highlight several items in the operating results. In the Corn segment, we are separating out the corn hedge ineffectiveness gains and losses. For this third quarter, we've brought into results an additional $11 million of hedged mark-to-market losses that otherwise would have been

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deferred into the future. When Juan talks about operating results for corn, we have taken out these hedged ineffectiveness impacts in order to provide a better sense of the underlying operating performance.

In the Ag Services segment, included in the results were about $30 million of gains in insurance recoveries related to our property claim from 2012. We self-insured this property with the captive insurance operations, and hence there is an offsetting $30 million loss in the financial line. Results for the quarter ended December 30, 2012 in Ag Services also included the $146 million impairment charge related to Gruma.

Now let me touch on a few lines -- items of significance in the Corporate line. I mentioned LIFO earlier, a credit of $298 million for the quarter, as significant declines in commodity prices during the quarter greatly impacted our LIFO inventory reserves. That's compared to a charge of $53 million a year ago; interest expense of $105 million for the quarter, down from the prior year. Unallocated corporate expenses of $97 million were up from the $70 million level a year ago, due primarily to higher special project costs, higher community investment commitments, and the absence of some prior-year credits.

I mentioned the mark-to-market valuation gain of $26 million related to our Australian dollar hedging. And finally, the other of negative $19 million includes some mark-to-market valuation losses related to our investment in CIP compared to some gains last year.

Turning to the cash flow statement on slide 6. We present here the cash flow statement for the nine months ending September 30, 2013 compared to the same period the prior year. We generated $1.4 billion from operations before working capital changes in the first nine months of 2013 compared to $1.8 billion last year. Working capital changes were a source of $3.4 billion of cash in the period, compared to last year when they were a significant use of cash. Total capital spending for the nine months was $659 million and acquisitions amount to $35 million.

After changes in working capital and investments, our free cash flow for the first nine months of 2013 was over $4 billion, compared to a use of cash of $600 million last year. Our cash flows are benefiting from lower commodity price -- prices and our focus on cash flow generation. With these strong cash flows, we're able to reduce drawings on our working capital lines, such as commercial paper borrowings.

We did repurchase about 2.5 million shares during the quarter, bringing our year-to-date purchases to about $100 million, or a total of about 2.8 million shares. We have about 11 million more shares to repurchase to offset the impact of the equity unit conversion. We finished out the quarter with an average of 664 million shares outstanding on a fully diluted basis.

Slide 7 shows the highlights of our balance sheet as of September 30 for both 2013 and 2012. Cash on-hand was approximately $3.5 billion, up about $1.8 billion from the prior year. Our operating working capital was about $10 billion, down from the $15 billion level last year or a reduction of $5 billion. Of this reduction, about $2 billion was related to lower quantities of inventory.

Total debt was about $6.9 billion, resulting in the net debt balance. That is debt less cash of $3.4 billion, down significantly from the 2012 level of $8.8 billion. Our shareholders equity of $19.6 billion is about $1 billion higher than the level last year. Our ratio of net debt to total capital (technical difficulty), much improved from the September 30, 2012 level of 32%.

In many respects, our balance sheet leverage is low at the end of this September, impacted by the small US carryout and the late US harvest, as well as lower corn prices. In addition, our balance sheet is ready to fund the Grain Corp. transaction when it closes, as well as accumulation of inventory in the fourth quarter as we go through the North American harvest. At the same time, our focus on capital efficiency and generating cash from the assets is translating into a strong balance sheet as well. We had $8.7 billion in available global credit capacity at the end of September. If you add the available cash, we had access to about $12 billion of liquidity.

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

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

Thank you, Ray. Good morning, and thank you all for joining us today. We have made some changes to this portion of our presentation. My comments will focus more on the drivers of our results and our underlying performance, and less on the accounting variances between periods. The slides show both sequential results and year-ago results.

So, if you turn to slide 8, I will start with segment operating profit, and then move on to discuss the three major segments.

The team managed well through the steep inverse, minimizing inventories by keeping operations running at efficient rates and our customers well-supplied. This was a solid performance in a very tough environment. Our underlying and segment operating profit was slightly down both sequentially and year-over-year.

If you turn to slide 9, starting with the oilseeds team, who managed the inverse very well in North and South America. Amid a strong foreign and domestic demand, and a tight crop balance sheet, the strategic locations of our US operations, and the ability of our team to source and transport beans, allowed us to maintain good crush rates. And, as farmers brought in the harvest, that same origination and transportation network kept our plants supplied with new crop beans.

Meanwhile, in South America, our team moved large export volumes through our efficient river and port operations at the peak of the inverse, capturing strong margins. In Northern Brazil, we continued preparing our new port ahead of the harvest. Also, I want to note that our Protein Specialties business set a new record operating profit as we continued to grow our High-Value-Added Ingredients business.

In Corn, slide 10, margins in our Sweeteners and Starches business remained solid, as our sweeteners shipments to Mexico were relatively stable. Our ethanol team managed through continued volatility, and margins remained positive, as higher gasoline demand on lower corn inventories kept supply and demand relatively balanced. We continued to identify and implement new projects to further improve our cost advantage in this business. And our Renewable Chemicals group had the most profitable quarter to date.

Slide 11, please. Ag Services managed effectively through the crop transition and the steep inverse. As US crop supplies dwindled, July and August export from the Gulf of Mexico were seasonably low. As the large harvest began to arrive in September, export rose to higher than average levels.

Our international merchandising team had a challenging quarter. And with low crop supplies, our barge business found other freight to move, including frac sand and building supplies. Once the harvest started in the Mississippi River Delta, our ARTCO barge line handled about 40% of the region's total crop. Also this quarter, we opened our intermodal container hub here in Decatur. This so-called inland port will allow ADM and our transportation customers to further leverage ADM's prime location, with access to three Class I railroads and five major US highways. Our milling business continued to perform very well.

As we look to position ADM for better performance and better returns, we are focused on three key areas -- strengthening the core business, expanding our business, and managing our portfolio. Let me update you on slide 12 on the three key areas.

Strengthening the core includes our efforts on the three C's -- capital, cost, and cash. We are ahead of schedule in our cost management efforts. We have implemented the steps that will deliver more than half of our targeted target of an additional $200 million in cost reductions by the end of 2014. In cash, we continue to benefit from the focus of the $1 billion challenge efforts created in the organization. We not only achieved $2 billion in working cash reductions, but we also elevated ADM's overall focus on cash generation. We can see that reflected in our strong cash flow again this quarter.

And in capital, we remain on pace to invest around $1 billion in 2013. For 2014, we expect to be a little higher but remain under $1.5 billion for the year.

Our effort to expand the business includes our pending acquisition of Grain Corp. We're making good progress here, with seven out of nine jurisdictions having cleared the deal. In the third quarter, we received clearance from South Africa, Japan, the European Commission, and South Korea. We continue to work with authorities in Australia and China to achieve the final approvals. Earlier this month, the Australian Treasurer issued

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an interim order which commits the government to a decision by December 17 at the latest. Based on this, we expect closing to be sometime in the first quarter of 2014.

And in our ongoing portfolio management efforts, we continue to focus on cocoa. We are happy to report that business conditions improved in the third quarter, as we suggested would happen on our last call. And we're very proud of the way our team capitalized on the improved business environment. Regarding discussions about the potential sales of this business, we have no news to report.

And finally, in slide 13, we wanted to discuss some of the factors we think will influence our business in both the fourth quarter and in 2014. As we mentioned, the world will have record supplies of corn, oilseeds, and wheat. In the US, we are expecting a record corn crop and a fairly large soybean crop. In Brazil, we're anticipating record soybean planting and we're seeing strong grains production in the Black Sea region.

These large supplies represent an excellent opportunity for us to utilize our global storage and transportation assets. They will mean lower cost imports for our processing operations and they will make all of our products more competitive versus substitutes. We see strong demand for US soybean exports. We expect this demand to continue, though we are mindful of significant soybean stocks held by farmers in Argentina.

Around the world, we continue to see strong global demand for oilseeds and protein meal. In the US, the expiration of the biodiesel blenders credit at the end of this year is driving strong biodiesel demand in the fourth quarter. And we are encouraged by the growth of our Protein Specialty business in oilseeds. The record US corn harvest will mean ample supplies for ethanol production. We'll be watching industry production levels relatively to demand, and we will continue to adjust our plants to maximize our own profitability. We expect continued ethanol margin volatility. In 2014, between favorable blending economics, expansion of E85 adoption, and growing exports, we remain confident in our ethanol business.

Pat?

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

Thank you, Juan. So, just to summarize, we had solid overall performance, driven by North and South American oilseeds and improved ethanol margins. Ag Services managed the transition effectively. We are ahead on cost management, and we're seeing great results from our cash efforts. Looking ahead, large supply, strong demand, lots of opportunity.

So with that, operator, if you would please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Ken Zaslow, Bank of Montreal.

Ken Zaslow - *Bank of Montreal - Analyst*

Just have a couple of questions. One is, can you talk about the progress on the sale of the cocoa business? I don't know -- I didn't hear the update on that.

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

Sure, Ken. Juan covered it a bit in his comments, but let me say a little more. Certainly, conditions have improved since the third quarter, and we're proud of the way the team has capitalized on that improving business environment. So that's sort of the first thing.

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Any discussions about the potential sale, we don't have any news to report this quarter. It is part of our disciplined approach that we look at portfolio management and evaluate everything, and take into account all of what our discussions would be. But it wouldn't be appropriate to comment on any of those discussions today, so we don't have any news about a sale.

Ken Zaslow - *Bank of Montreal - Analyst*

The other two questions I have is, with the potential change for the RFS, can you talk about your view on what that status would be, and how that would actually change your outlook for ethanol margins into 2014?

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

Yes, Ken. Juan here. Good morning. You know that the -- you know, the EPA has confirmed that they have made no final decision in that regard. So, to comment on rumors, it would be speculative at this point.

I just think about the conditions in the market right now. With the US record corn crop and corn prices having declined, the economics are very strong to blend ethanol today. Between these economics to blend, Ken, the expansion of E85 and E15 blends, the surplus range that there are carrying into 2014, and the growing exports in ethanol as corn becomes more competitive in the US, we are very confident in the industry's ability to meet the [2014] corn-based requirements. So, we don't see major reasons for any change in policy at this point in time

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Ken Zaslow - *Bank of Montreal - Analyst*

Okay. If there were changes in policy, would you think that the margins would be more volatile? Or would it not change it because of lower corn prices? Can you just give some conceptual view on if there were changes, if there were -- does that change any of your outlook for 2014?

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

If there were changes in policy, first, I will be highly disappointed, since we have invested based on the policy and we invested for the long-term. But I will say we continue to see export potential and that is growing. There are some experts that are talking maybe even 1 billion gallons for next year. And I think this is a mature market in the absence of growth from the RFS, so we will manage as such, and we will adjust supply and demand to maximize profitability.

So, we continue to expect volatility, but we are positive about margins. We continue to emphasize in a smaller market that we are at the first quartile end of the cost curve, if you will. So I think that if you think on the long-term, on a smaller potential ethanol market, it may impact the high-cost producers. And that's why I emphasize in my remarks, we continue to find opportunities to extend our cost advantage in ethanol.

Ken Zaslow - *Bank of Montreal - Analyst*

Great. I really appreciate it. Thank you.

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

You're welcome.

Operator

Ryan Oksenhendler, Bank of America Securities Merrill Lynch.

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Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Can you just talk about -- I was really surprised by how well oilseeds did during the quarter, particularly your commentary around North America. Can you talk about, I guess, what was driving that? And maybe if you can provide a little information about the mix of contribution from North America and South America, because I think everyone kind of expected South America to be good. And then kind of how you see it going forward over the next two or three quarters?

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

Sure, Ryan, yes. North America, as you described, had an exceptional performance this quarter. We emphasized that the location of our plants to allow us to get good access to beans. But the team did an exceptional performance, running a very, very tight environment. Demand was very steady on a domestic basis. Very strong on an export perspective.

So, we took full advantage of that. Obviously, run rates of our oilseeds were relatively lower than other quarters, but margins expanded. So I think we managed that combination very, very well.

When you look at South America, we had a very strong quarter, mostly driven by origination -- the corn exports and all that. As you know, our Ag Service business or our Origination business reports under oilseeds in South America, and that's what you saw there.

From a crushing perspective, the environment, as we look at Europe, even China or North America, Northern Hemisphere is strong. We expect it to be strong on a steady domestic supply in the -- domestic demand in the US. And as I said, strong export meal markets for probably the next two quarters. So we are -- we continue to be bullish about our soybeans business.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Great, thanks for that. And then just in terms of free cash flow, it looked like you generated like $2 billion -- about $2 billion in the quarter. Maybe if you could talk about the expectations going forward. It seems like grain prices have moderated since quarter-end. And then, you know, the potential uses of cash. Because you're clearly in the middle of making a major acquisition, which seems like you already have cash on-hand for. I don't know that I would expect another major acquisition. So maybe there might be something minor there, in terms of M&A. But debt paydown -- I know that you paid down some more debt this quarter -- is there any reason not to expect significant share repurchase going forward?

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

Good morning, Ryan. It's Ray here. Yes, we're working through a couple of things right now. And first of all, our expectation is, with a normal US harvest year, we do expect grain prices to remain fairly subdued here. At the same time, there are a couple of things ahead of us. As you point out, the Grain Corp. acquisition. We'll have to fund that. And again, our balance sheet is pretty strong and able to handle that through our operating cash flows.

Secondly, we are working through our 2014 business plan at this juncture right now, and already determined what kind of projects we have in front of us for next year. That will also guide us in terms of some of the capital structure considerations.

Thirdly, our credit metrics. I mean, our balance sheet leverage right now is pretty good. I mean, it's come down dramatically. At the same time, our debt to EBITDA ratio remains somewhat strained, and that's due to the fact that we haven't -- due to the residual impacts of the 2012 drought, our earnings haven't been that strong. So we're looking for a recovery of the debt to EBITDA ratio also in order to determine how we're going to approach the share buybacks in the future.

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But assuming prices remain -- commodity prices remain low, and assuming earnings recovery occurs, and assuming no other factors are on the horizon, we can see ourselves accelerating the pace of share buybacks to mitigate the impact of the equity unit dilution. As I indicated in my remarks, there's about 11 million more shares that we need to buy to fully offset the equity unit conversions. And then beyond that, we clearly are examining all of our options for capital allocation, including share buybacks, with the objective, clearly, of driving returns. And, as you know, our objective is to generate returns on invested capital above WAC of at least 200 basis points over the cycle. So that's really guiding us in terms of how we're thinking through a lot of our capital allocation.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

That's great. Really helpful. I'll leave it there. Thanks a lot, guys.

Operator

Robert Moskow, Credit Suisse Securities LLC.

Robert Moskow - *Credit Suisse - Analyst*

I wanted to see if you had a sense of the demand side for oilseeds, specifically in the livestock industry. I think one of your competitors said that they expect customers to start refilling their inventories. So I just wanted to see if you -- when you take the pulse of your customer base, do you see that happening? And do you see any rebuilding going on in the livestock industry in response to lower prices?

And then just a quick follow-up. On your comment here that Europe was weak because of limited soybean availability, I always thought of Europe as a rapeseed market. So I just wanted to know why the comment there on soybeans? Thanks.

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

Yes, Rob. This is Juan. I'm not sure I said that Europe was weak on soybean availability. (multiple speakers)

Robert Moskow - *Credit Suisse - Analyst*

That's what it says in the press release, Juan.

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

Okay, okay. You know, Europe was -- is, as you said before, it's a rapeseed market basically. We have higher raw material costs that impacted us in Europe, and a little bit of the soybean meal coming from South America put some pressure on that. But in reality, when you look compared to the previous year, Europe has had a very good quarter. So, in general, we enjoy good margins there.

Going back to your original question about the customers, we see, as I said before, solid domestic demand. Customers are gaining back into profitability, and they seem to be having good prospects into the future. So we see our pipelines for continued good demand here in North America. As I said probably, until we start running out of beans, maybe Q2, Q3 next year, we see strong margins.

Robert Moskow - *Credit Suisse - Analyst*

Can I ask a quick follow-up? Thank you for that. On high fructose corn syrup and Mexico, there's word of potential, I guess, regulatory efforts to reduce sugar in beverages or discourage it. How are you thinking of that in your business? And is there any impact that we should consider?

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

Yes. Well, when we look at the situation in sweeteners going forward, we see there are some headwinds that you describe. And Mexico is going to have a big sugar crop, a record sugar crop, that has dropped prices. And also there are these soda tax that you describe.

It's difficult -- first of all, the tax is not a law yet, but it's difficult to estimate the impact that will have. We don't know exactly how it's going to impact one serving items, if that's going to apply or not. And also, you have to remember that the soda marketing people are very good price managers, and I'm sure they're going to position price correctly to minimize the impact. There are some estimates over there saying maybe a 5% drop in consumption is a speculation at this point in time.

But so those are the headwinds, if you will. The tailwind, to look at it on the other side, is that our corn prices are much lower, so our products are much more competitive. And that has narrowed some of the gap to sugar in certain parts of the world. So you know we are still positive about getting volumes as planned. Maybe a little bit of a headwind, as you described, but we remain very positive. This has been a relatively stable business for us and we've been delivering volumes as per plan so far.

Robert Moskow - *Credit Suisse - Analyst*

Thanks for the color. Appreciate it.

Operator

David Driscoll, Citi.

Cornell Burnette - *Citigroup - Analyst*

This is Cornell Burnette in with a question for David. Okay, great. I just -- earlier, Juan, you talked about the schedule in RFS moving to 14.4 billion gallons next year. But I would say, looking at the E10 blend wall, that gets us just above 13 billion gallons. And E15 seems to be coming, but coming a bit maybe slower than maybe we would have thought in the past. So it would seem to get to that 14.4 metric, we would really need, I think, to be driven by E85. I just wanted to ask what was your opinion on the adoption of E85? And then also, if you could talk a bit about E85 economics versus E10, that would be great.

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

Sure, yes. Yes, Cornell. I agree with you, if we look at the evolution of E15 and E85, E15 implementation, the implementation of those plans is coming slower than expected. There are obviously issues of infrastructure there and convincing of people to switch. When we look at E85, we're seeing a completely different picture there. We have already approximately 3200 stations dispensing E85 these days. You know, I get frequent reports there was a week, I think, in September where maybe something like 20, 25 new stations started to dispense E85.

E85 allows to, when people price it correctly, to get the full impact of the advantage that corn brings here to the table. In some places, it's priced at about $1 under E10 mixture. So, we see that as really positive for us to get to the numbers. As I said before, there are 1 billion D6 RINs going into next year. There is E85 growth, as I said, in these 3200 stations.

When we look at the numbers of how much volume or how many gallons these E85 could represent for us, if people will price E85 low enough to entice conversion, perhaps as much as 3 billion gallons over the next two years could be there. So if you start thinking of potentially 1 billion gallons of exports, 1 billion RINs for next year, and maybe 1 billion gallons of E85 over time, we feel very confident that we can deliver on those numbers.

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Cornell Burnette - *Citigroup - Analyst*

Okay, very well. Thank you.

Operator

Farha Aslam, Stephens Inc.

Farha Aslam - *Stephens Inc. - Analyst*

First one is on milling. While it's a smaller business for you guys, it had an exceptionally strong quarter. I was wondering if it's seasonality? Or anything in particular you would highlight on that milling business, and what we should look for going forward?

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

Yes, Farha, this is Juan. The business was strong on seasonality and we had, especially on the food side of it, was a strong demand. And we have an exceptional team that they execute very, very well. So, all in all, a very, very solid performance. Sometimes we underestimate or undermention them just because they are so solid, but they continue to deliver. Very good business for us.

Farha Aslam - *Stephens Inc. - Analyst*

Yes. And then, a harder business for us to kind of predict is how merchandising and transportation, what we can expect with the large crop, particularly with transportation, given that we're hearing that barge rates and rail rates are going up significantly with the large crop coming in. Does that benefit you guys in the fourth quarter? Is that something that will benefit you throughout next year? Could you just give us some more color regarding transportation, and then how you expect that merchandising business to perform over the next few quarters, given that the crop is coming in late, and it sounds like the initial crop is going in the bin rather going to merchandisers. Just some color around that would be really helpful.

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

Well, you gave already an excellent picture, Farha. (laughter) This is Juan. Listen. The way we look at this is, obviously, a big crop will present to ADM and to Ag Services an excellent opportunity to fully utilize all our assets -- our fixed assets, our transportation assets. And we will work to maximize that over the several quarters. We're probably going to have a full year ahead of us of high profits for Ag Services.

Whether they all fall in the fourth quarter or not, I mean, it will depend on how do we execute based on maximizing opportunities. You know, there may be different market situations that make us -- that some of those profits overspill into Q1 or some different situations, market conditions, that would make those profits to fall into Q4. I think we focus on maximizing the long-term, the year, if you will, in that sense, profit for the shareholders.

So, don't hold us too tight on Q4 in that sense. The crop is just being harvested. It's probably 80% corn and -- 80% soybean and 60% corn. So there's still a lot of decisions that need to be made by the farmer in terms of marketing their grains, and whether the market is going to put more carry or not.

So, at this point in time, we are excited. We've seen in Q3 already September volumes, export volumes, and also transportation occupancy rates coming up significantly. So it's a good preview into what could be a strong Q4. Whether it's going to be a record Q4 or some of that will be in 2014, we'll have to see, depending on the market conditions.

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Farha Aslam - *Stephens Inc. - Analyst*

Great. Thank you very much.

Operator

Adam Samuelson, Goldman Sachs.

Adam Samuelson - *Goldman Sachs - Analyst*

Maybe another question on ethanol. And I wanted to, maybe on E85 and as we think about the pace of adoption here. And I guess trying to really get a sense of how -- you alluded to 1 billion gallons of E85 consumption. Do you think that can happen in the next 12 months? Or how quickly do you think we can get widespread E85 adoption, given the current corn and gasoline price environment?

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

Yes. There are a lot of vehicles out there, obviously, that can use this fuel. So, a lot will depend, and we don't have that power to price it correctly, and I said that before. We have seen the number of stations dispensing E85 is growing every week, which is a very good sign that this is a profitable business and a growing business for the owners.

Obviously, as I said before, they could be priced $1 or more advantage over E10. That will drive more consumption. There are today 240,000 vehicles on the road today that can consume this (multiple speakers) -- yes, 14,000 -- sorry, 14,000 flex fuel vehicles.

So, again, I think that -- I think the issue will depend all on how effectively can you price it. I think making a forecast on how quickly can it grow, it could be dangerous not having the tool of pricing. But we feel that there is the vehicle -- there are a number of vehicles out there to have that kind of impact. So again, we were thinking that something about 3 billion gallons over the next two years. And I don't know exactly how we're going to ramp up one year in the first year.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay, that's helpful. And then maybe just a second question on cost. And I know you've given targets for $200 million of cost out by the end of 2014. Can you -- as we look out, as the new crop comes in and presumably the asset utilization, primarily in Ag services, should increase meaningfully, can you talk about how we should think about margins from the cost out -- the margin uplift from the cost out with the new crop coming in? And maybe within the portfolio where that impact is most pronounced?

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

Yes, certainly, the biggest impact will be in the Ag Services business. The Ag Services business did a fantastic job last year of adjusting their variable cost to a smaller crop. But to a big extent, they are a fixed cost business, since we have all the infrastructure already built. So if you figure that volumes in the US handled by our footprint maybe in the range of over 20% bigger than previous year, you could have that kind of dilution of our fixed costs. So, we believe there is going to be a big margin expansion in that.

And -- but again, it will be that compounded with some of the dislocations and the market opportunities that the industry will present. So, every year, we tend to make money in a different way. And we have an exceptional team that can adapt to do that. So we are very optimistic in having a very pronounced increase in profits in Ag Services by -- for 2014.

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Adam Samuelson - *Goldman Sachs - Analyst*

And I know in the past, you've talked merchandise -- the old merchandising and handling and transportation, when they were on their own, $150 million to $200 million or so of quarterly segment profit. Is there any kind of updated view there? Or is it too early to tell at this point?

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

I think -- listen, it's a little bit early. As I said, we only have September as a sample of this. So we would like to see how the harvest concludes and how the farmer reacts to this before making a commitment.

Adam Samuelson - *Goldman Sachs - Analyst*

All right. Thanks very much.

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

Welcome.

Operator

Mike Piken, Cleveland Research.

Mike Piken - *Cleveland Research Company - Analyst*

A couple of quick questions. Could you talk a little bit about the impact on maybe that you're seeing from some of the disease issues that are impacting the US hog herd and how that might impact meal demand?

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

Yes. So what you're referring is the porcine epidemic virus. You know, obviously, it's not a new virus. It's just new in the US. And we have some reports of some cases in Iowa. At this point in time, not huge. You know this is all about prevention. There is no vaccine against this virus, so it's all about disinfecting and cleaning. Obviously, there's no human issue. There is no repercussion in their ability to use the protein as food. It just kills the small -- the baby pigs. So, but we haven't seen -- other than some reports, we haven't seen any impact in meal at this point in time. Whether it's going to come later on, it will depend on how well again the producers sanitize and have early detection of some of these viruses. But not other than some circumstantial reports, nothing significant at this point.

Mike Piken - *Cleveland Research Company - Analyst*

Okay, great. And then as we sort of think longer-term about both meal and oil demand, on the meal side, if we think about growth in DDGs starting to stall out with the ethanol industry reaching maturity, how do you sort of think about the long-term growth potential for meal demand globally? And then on the oil side, I guess, what do you think will happen in 2014 as the biodiesel credit expires? Do you expect to maintain the margins that you saw this quarter? Thanks.

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

Yes. Well, you said in biodiesel, we saw good margins this quarter. We've seen even better conditions in Q4 as people try to take advantage of the credit before it expires. We can't comment on what's going to happen next year. The government hasn't issued any ruling yet. And just a reminder that last year they issued the ruling late but it was retroactive, so it could happen again this year.

Obviously, biodiesel needs of that, so margins will be different if that doesn't happen. On meal demand, I think I answered part of it before about, we see this very solid demand in domestically and very strong in exports. We're even exporting a lot of the DDGs as well to China. So, we continue to be very bullish about long-term and higher increase in protein consumption. So, all very much along the trends that we have seen and they continue to deliver. We continue to grow into the global crushing capacity because demand continues to be there quarter after quarter.

Operator

(Operator Instructions). Tim Tiberio, Miller Tabak and Company, LLC.

Tim Tiberio - *Miller Tabak and Company, LLC - Analyst*

Thanks for taking my call and good morning, everyone. My first question is, looking at the South American crop potential coming in to 2014, how are you thinking about how the operations are positioned from a transportation cost perspective? I know that kind of caught a lot of agribusiness players a little bit offguard last year. Do you think that the operations have kind of taken some of the key learnings from last season and are proactively implementing that heading into 2014?

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

Yes. Good morning, Tim. We prepared for last year; maybe we were not prepared for the huge inverse that enticed the farmers to try to sell all at the peak of that inverse at the same time. So we continue to prepare. We are renewing some of our facilities, enlarging some others. We -- you heard us before. We are building this port in the northern part of Brazil to make sure that not all the crop needs to go through the port of Santos, and we alleviate a little bit of that. The port is waiting for some permitting, but we are gearing up to be ready for the next harvest. That will be maybe 1 million tons of handling capacity at the beginning, and 3 million tons when it's completely up and running.

So, yes we continue to invest. I think all the industry every year does that. Every year, production seems to grow a little bit faster than what the industry can add infrastructure to, but we continue to be committed to it.

Tim Tiberio - *Miller Tabak and Company, LLC - Analyst*

Okay. And then secondly, I've noticed that the European Union has gone ahead with some of the anti-dumping tariffs in Indonesia and Argentina. How is that impacting your European biodiesel business? Are you seeing that as a positive? And should we see that continuing forward into 2014?

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

Yes, Tim, it has impacted that positively, absolutely, as it reduced the competition from these two sources. So, overall it's a positive for ADM. We don't produce biodiesel in Argentina. And we are certainly a producer in Europe. So it's a positive for us. Yes.

Tim Tiberio - *Miller Tabak and Company, LLC - Analyst*

Okay. And then just lastly, one of your history peers have -- has become more acquisitive in the milling segment. As you look out across the -- your America's footprint, are you pretty comfortable with where you are as far as capacity on the milling side within the Americas?

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

Yes, we are. I described it before. It's a very solid business. We have positions in North America but also in Central America. Very good businesses for us. If anything, what we've been investing is in more efficiency. So shutting down sometimes old facilities or consolidating two or three facilities into a new one. So we continue to be there to supply our customers and to follow on their growth.

Tim Tiberio - *Miller Tabak and Company, LLC - Analyst*

Great. Well, thanks for your time.

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

You're welcome.

Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews - *Morgan Stanley - Analyst*

Juan, can I just ask -- you mentioned Santos, and there's been a problem down there, more on the sugar side than what you guys do. But from what I've been reading, it sounds like it's going to take a long time to repair. And it's going to -- it's expected to sort of compound the difficult logistics that we saw last year, going into next year, when the harvest may actually be even larger. So how should we be thinking about that for you guys going into the South American crop next year? Maybe we just start there.

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

Yes. Good morning, Vincent. One of the ways, as I said -- but first of all, obviously, we are continuing to strengthen all our storage, our rails, that we're tracking contracts to make sure that we deal with that a little bit more effectively than we did last year. We are also, as we look into the year, and a year with more plentiful crops everywhere, we expect, as I said, to have less of an impact of the inverse like we had last year. And we think that that last year, it was a combination. It was a little bit of a late harvest, it kind of came a little bit on top of one on top of another.

So, then, there was a rush to sell at the peak of the inverse. We expect some of those conditions may be different next year. So when you combine with being able to move some of the crop through the North in our port in Belem with less of an impact of an inverse and a little bit of better infrastructure in Santos, all that combination hopefully will make a situation a little bit better than this year. But, you know, there are still going to be lines. We've been seeing lines for many, many years. So we just think that it will not be the big issue it was maybe last year.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay. And maybe just as a follow-up, on the USDA balance sheet for corn in particular, the US has lost a lot of export market share to South America and to the Ukraine. As we think about having a larger crop in the US this year, do you anticipate the US will get back a lot of that share? Are you indifferent to that, given that you have access to material in those other markets as well? Or how should we be thinking about that?

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

Yes, I think that exports in the US typically have been in the maybe 2 billion bushel range and decreased significantly last year. We expect them to come back some this year, maybe not to that level of, historically. And you know, we benefit from exports, but we also benefit from a variety of other ways, whether it is supporting our local demand here in handling, drying, and storing crops at origins; if they -- we develop big carries, we make money from that as well. So it's not only exports that drive our Ag Services business. And we have also a big international merchandising business that is there to move products outside the US. So we are not tied exclusively to the US success in exports for us to make money in Ag Services.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay, thanks very much. I appreciate it.

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

You're welcome.

Operator

Diane Geissler, CLSA.

Diane Geissler - *CLSA Limited - Analyst*

Hey, I wanted to ask on your lower working capital and inventory balances, how much of that do you ascribe to the lower commodity costs? And then how much is really just because of the timing shift? We had an earlier crop last year versus this year. I mean, I see it in the process volumes down pretty significantly year-on-year, but could you talk about -- I'm just trying to get an idea about how you'll end the year in terms of inventory and working capital.

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

Yes, Diane. It's Ray here. When I talked about the working capital changes being a source of cash, both $3 billion in the first nine months, about $1 billion of that was ascribed to really lower prices. And the rest of that is really due to just lower volumes.

Now, as we kind of think through moving from September 30 to December 31, I mean clearly, depending on carries, there's an opportunity for us to build up some inventories as well. At the same time, I think that at the end of the year, normally what happens is we also build up pretty large payable balances to farmers, to our producers here in the United States. And so that's going to be a source of cash for us as well. So, while I do expect probably some buildup in working capital, I don't expect it to be that significant, especially given it looks like soft commodity prices will remain constrained.

Diane Geissler - *CLSA Limited - Analyst*

Okay. Well, what is your view on the crop? Because we didn't get a WASDE Report in October. And what I'm hearing is that the crop out in the field is actually larger, the yields are better because of the weather we've had for the last six weeks. So, it's -- what is your early read really on yields in corn and beans?

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

Yes, Diane. This is Juan. Good morning. Yes, we've seen early reports from the field that the crop seems to be larger than expected, so we're thinking about 14 billion bushels for corn and something in the range of 3.2 billion for soybeans. Probably with a little bit more variances from area to area in soybeans, but -- in terms of yield. But in general, very positive results and very positive samplings from our people in the field.

Diane Geissler - *CLSA Limited - Analyst*

Okay. And then I didn't hear a discussion on fructose contracting. I may have missed it. What is your expectations, I guess, with a crop this size and prices down for -- with your bottlers for 2014?

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

Yes, as I described before, there are some headwinds in the Mexico side. Our volumes have been slightly lower than last year but still above average. So, we still have good tight capacity utilization. So we're in the middle of that negotiation, so we're not going to -- I'm not going to say much. But I would say we have a big capacity of shifting some of the product mix. So we have many, many products coming from these. And every year, we look at how to allocate that volume to maximize value. And part of these negotiations go into that exercise as well, so.

Diane Geissler - *CLSA Limited - Analyst*

Okay, but do you have an -- do you think you'll be done with the contracting by the end of the year? Do you think it will carry into 2014?

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

It normally carries a little bit into January and February.

Diane Geissler - *CLSA Limited - Analyst*

Okay. All right. Terrific, thank you.

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

You're welcome, Diane.

Operator

Ann Duignan, JPMorgan.

Ann Duignan - *JPMorgan - Analyst*

Thanks for squeezing me in. Most of my questions have been answered, but I just wanted to philosophically on ethanol, with production already reaching record levels the last couple of weeks, and RIN carryovers now into 2014, isn't it prudent to assume that margins in ethanol should likely deteriorate as we go through 2014, just on -- from a supply side part of the equation?

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

Yes. This is Juan. We expect, as we go into Q4, a lower driving season and more ethanol available -- more corn available for ethanol producers. So we expect pressure in our margins as we go into Q4.

2014, as I said, there's going to be this increasing production at the same time that corn prices go down, and ethanol becomes more internationally competitive. So it's going to be a climb in exports. And because those things never happen at the perfect timing, you're going to see volatility. But overall, we are positive 2014 probably seeing some pressure in margins in Q4.

Ann Duignan - *JPMorgan - Analyst*

Okay, that's helpful. And then on the biodiesel side, should the tax credits expire, where else can you find a market for the soybean oil?

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

Well, you know, biodiesel is a good option for us to divert part of the oil. Oil inventories have been drawn down during the past quarter, so they are not very big. And edible oils consumption continues to be very good. But certainly, it will be a negative if the subsidy is not renewed.

Ann Duignan - *JPMorgan - Analyst*

Okay, I appreciate that. That's it. I'm going to leave it there. Thank you.

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

You're welcome.

Operator

Eric Larson, CL King & Associates.

Eric Larson - *CL King & Associates - Analyst*

I know it's getting late in the call. Thanks for taking my question. Just want to drill down a little bit more kind of in the current harvest. Are we sort of past sort of the big bulge and surge in soybeans? And are we -- in soybean harvests? And are we probably right at the -- right in the middle of the corn surge right now? We've seen very weak prices the last week or so, even in the last few days. And you've got a very positive carry on corn. You have no incentive right now on soybeans.

So, aren't we set up pretty well to have, just with that analysis alone -- forget about the drying conditions, whether you're drying more corn right now -- we should be pretty well set-up for some pretty strong Ag Services profits over the next few quarters. Is that fair?

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

Eric, we've been waiting for this situation for quite a while. So I would say the team is ready. The asset has been maintained and the team is excited about executing on that environment. The environment is favorable at this point.

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Eric Larson - *CL King & Associates - Analyst*

Okay. So we could -- even on a cash price basis, I'm seeing some elevators at $4.00 on corn. It's a little bit higher on a national basis. But certainly, it seems like you're getting the big surge of corn at the moment. Is that fair?

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

Yes. It's fair.

Eric Larson - *CL King & Associates - Analyst*

Okay. And then, if you kind of look at your -- if I look at the merchandising side, and I think your explanation earlier was pretty accurate, you are a global merchandising company, but we have seen in the past where exports just don't recover quite as quickly, because we've encouraged a lot of production around the world with high corn prices the last year in places like the Ukraine and South America, Latin America. Do you think that your merchandising capabilities internationally -- for example, picking up potential merchandising services out of Russia and out of South America -- could offset maybe a slower recovery in US exports?

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

Yes, that's a good observation. Our team in -- our origination team in Brazil is very strong. And they have delivered like, in quarters like this, very strong performance. And also, our operations in the Black Sea area are also very strong. So I feel very good about our ability to export from those regions if the US is not competitive. Yes.

Eric Larson - *CL King & Associates - Analyst*

Okay, thank you.

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

You're welcome.

Operator

David Driscoll, Citi.

David Driscoll - *Citigroup - Analyst*

Thanks for taking the follow-up. Just quick questions on high fructose corn syrup in the corn sweetener segment. Juan, you had mentioned earlier that volumes are holding in pretty nicely and that your shipments to Mexico in the quarter were pretty much flat. But when you look at the numbers, it seems like when you exclude the hedging impacts, profits in that segment were down about 20% or so in the quarter. And I just wanted to know what was driving that?

And then secondly, it seems like you're booking some of the trends that we see in the USDA data in terms of shipments to Mexico. The latest USDA data will have them down about 20% in the second quarter. You said you guys were about flat in the third quarter. So I wanted to know, was the industry moving at that same pace in the third quarter and things started to recover? Or are you guys just bucking the trend? And then what's your outlook for exports going forward?

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

Yes, you know, this summer was an unusual summer in which -- when I was talking about our volumes, it's also our -- in general, our year-to-date volumes. But the summer was a cool and wet summer at the beginning, which reduced the consumption. And I think you heard our customers also reporting lower sales. And then it picked up a little bit later into the summer.

We also had -- regarding your comment on the profitability, we had some asset write-offs that impacted that segment. So it's not all volume. But I would say we -- as we look into next year, as I mentioned before, we see some headwinds in terms of our export to Mexico, either the tax or the big sugar crop that they are having over there. And we will have to see what our cost position becomes after corn settles for the next year and see how competitive we are.

As I said before, we have many tools, we have many products that we use to compete for our grain. And we have an incredible good commercial and logistics network going into Mexico, that makes us very, very competitive and good -- a very good supplier there. So we face the prospect of next year with cautious optimism, I would say.

David Driscoll - *Citigroup - Analyst*

Okay, thank you.

Operator

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

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

Thank you, everyone, for joining us today. Slide 15 does list our upcoming investor events. And, as always, feel free to call Case or any of us for follow-up questions. Thanks a lot. Bye bye now.

Operator

This concludes today's conference call. You may now disconnect.

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