

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2020

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-44



ARCHER-DANIELS-MIDLAND COMPANY
(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

41-0129150

(I. R. S. Employer Identification No.)

77 West Wacker Drive, Suite 4600

Chicago, Illinois

(Address of principal executive offices)

60601

(Zip Code)

(312) 634-8100

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	ADM	NYSE
1.000% Notes due 2025		NYSE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐.

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	☒	Accelerated Filer	☐	Emerging Growth Company	☐
Non-accelerated Filer	☐	Smaller Reporting Company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, no par value – 556,389,049 shares
(October 29, 2020)

SAFE HARBOR STATEMENT

This Form 10-Q contains forward-looking information within the meaning of the Private Securities Litigation Reform Act of 1995 that is subject to risks and uncertainties that could cause actual results to differ materially from those projected, expressed, or implied by such forward-looking information. Risks and uncertainties that could cause or contribute to such differences include, but are not limited to, those discussed in Item 1A, “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2019, as may be updated in our subsequent Quarterly Reports on Form 10-Q. 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.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Archer-Daniels-Midland Company

Consolidated Statements of Earnings
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(In millions, except per share amounts)				
Revenues	\$ 15,126	\$ 16,726	\$ 46,377	\$ 48,327
Cost of products sold	14,084	15,648	43,276	45,349
Gross Profit	1,042	1,078	3,101	2,978
Selling, general, and administrative expenses	636	578	1,938	1,839
Asset impairment, exit, and restructuring costs	4	53	61	200
Interest expense	100	97	270	307
Equity in (earnings) losses of unconsolidated affiliates	(160)	(88)	(403)	(279)
Interest income	(16)	(47)	(71)	(142)
Other (income) expense – net	278	(18)	179	(39)
Earnings Before Income Taxes	200	503	1,127	1,092
Income tax (benefit) expense	(26)	95	38	212
Net Earnings Including Noncontrolling Interests	226	408	1,089	880
Less: Net earnings attributable to noncontrolling interests	1	1	4	5
Net Earnings Attributable to Controlling Interests	\$ 225	\$ 407	\$ 1,085	\$ 875
Average number of shares outstanding – basic	561	562	561	564
Average number of shares outstanding – diluted	562	563	563	565
Basic earnings per common share	\$ 0.40	\$ 0.72	\$ 1.93	\$ 1.55
Diluted earnings per common share	\$ 0.40	\$ 0.72	\$ 1.93	\$ 1.55
Dividends per common share	\$ 0.36	\$ 0.35	\$ 1.08	\$ 1.05

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In millions)			
Net earnings including noncontrolling interests	\$ 226	\$ 408	\$ 1,089	\$ 880
Other comprehensive income (loss):				
Foreign currency translation adjustment	(154)	(251)	(429)	(236)
Tax effect	51	(35)	37	(38)
Net of tax amount	<u>(103)</u>	<u>(286)</u>	<u>(392)</u>	<u>(274)</u>
 Pension and other postretirement benefit liabilities adjustment	 (5)	 7	 —	 10
Tax effect	3	—	(9)	15
Net of tax amount	<u>(2)</u>	<u>7</u>	<u>(9)</u>	<u>25</u>
 Deferred gain (loss) on hedging activities	 112	 (2)	 111	 (65)
Tax effect	(22)	8	(23)	13
Net of tax amount	<u>90</u>	<u>6</u>	<u>88</u>	<u>(52)</u>
 Unrealized gain (loss) on investments	 (28)	 7	 (25)	 12
Tax effect	—	—	(1)	(1)
Net of tax amount	<u>(28)</u>	<u>7</u>	<u>(26)</u>	<u>11</u>
Other comprehensive income (loss)	<u>(43)</u>	<u>(266)</u>	<u>(339)</u>	<u>(290)</u>
Comprehensive income (loss) including noncontrolling interests	<u>183</u>	<u>142</u>	<u>750</u>	<u>590</u>
 Less: Comprehensive income (loss) attributable to noncontrolling interests	 <u>2</u>	 <u>—</u>	 <u>9</u>	 <u>4</u>
 Comprehensive income (loss) attributable to controlling interests	 <u>\$ 181</u>	 <u>\$ 142</u>	 <u>\$ 741</u>	 <u>\$ 586</u>

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Consolidated Balance Sheets

(In millions)

September 30, 2020

December 31, 2019

(Unaudited)

Assets

Current Assets

Cash and cash equivalents	\$ 948	\$ 852
Segregated cash and investments	5,484	4,458
Trade receivables	2,616	2,267
Inventories	8,762	9,170
Other current assets	4,956	4,600
Total Current Assets	<u>22,766</u>	<u>21,347</u>

Investments and Other Assets

Investments in and advances to affiliates	4,771	5,132
Goodwill and other intangible assets	5,275	5,476
Other assets	2,167	1,936
Total Investments and Other Assets	<u>12,213</u>	<u>12,544</u>

Property, Plant, and Equipment

Land and land improvements	538	592
Buildings	5,429	5,381
Machinery and equipment	18,992	19,005
Construction in progress	1,037	1,021
	<u>25,996</u>	<u>25,999</u>
Accumulated depreciation	(16,180)	(15,893)
Net Property, Plant, and Equipment	<u>9,816</u>	<u>10,106</u>

Total Assets

\$ 44,795	\$ 43,997
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Liabilities, Temporary Equity, and Shareholders' Equity

Current Liabilities

Short-term debt	\$ 209	\$ 1,202
Trade payables	3,347	3,746
Payables to brokerage customers	6,069	5,022
Accrued expenses and other payables	4,280	3,757
Current maturities of long-term debt	2	7
Total Current Liabilities	<u>13,907</u>	<u>13,734</u>

Long-Term Liabilities

Long-term debt	7,922	7,672
Deferred income taxes	1,344	1,194
Other	2,196	2,114
Total Long-Term Liabilities	<u>11,462</u>	<u>10,980</u>

Temporary Equity - Redeemable noncontrolling interest

85	58
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Shareholders' Equity

Common stock	2,760	2,655
Reinvested earnings	19,311	18,958
Accumulated other comprehensive income (loss)	(2,749)	(2,405)
Noncontrolling interests	<u>19</u>	<u>17</u>

Total Shareholders' Equity	<u>19,341</u>	<u>19,225</u>
Total Liabilities, Temporary Equity, and Shareholders' Equity	<u>\$ 44,795</u>	<u>\$ 43,997</u>

See notes to consolidated financial statements.

Archer-Daniels-Midland Company
Consolidated Statements of Cash Flows
(Unaudited)

(In millions)	Nine Months Ended September 30,	
	2020	2019
Operating Activities		
Net earnings including noncontrolling interests	\$ 1,089	\$ 880
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation and amortization	727	742
Asset impairment charges	50	50
Deferred income taxes	57	8
Equity in earnings of affiliates, net of dividends	(165)	(92)
Stock compensation expense	114	66
Loss on debt extinguishment	410	—
Deferred cash flow hedges	111	(65)
Gains on sales of assets and businesses	(132)	(37)
Other – net	34	148
Changes in operating assets and liabilities		
Segregated investments	147	300
Trade receivables	(343)	276
Inventories	370	994
Deferred consideration in securitized receivables	(4,603)	(5,714)
Other current assets	(467)	(444)
Trade payables	(389)	(808)
Payables to brokerage customers	1,060	263
Accrued expenses and other payables	414	(206)
Total Operating Activities	(1,516)	(3,639)
Investing Activities		
Purchases of property, plant, and equipment	(558)	(566)
Proceeds from sales of assets and businesses	708	43
Net assets of businesses acquired	(3)	(1,946)
Purchases of marketable securities	(2)	(26)
Proceeds from sales of marketable securities	1	67
Investments in and advances to affiliates	(5)	(12)
Investments in retained interest in securitized receivables	(2,121)	(3,813)
Proceeds from retained interest in securitized receivables	6,724	9,527
Other – net	(16)	(23)
Total Investing Activities	4,728	3,251
Financing Activities		
Long-term debt borrowings	1,790	3
Long-term debt payments	(2,032)	(615)
Net borrowings (payments) under lines of credit agreements	(993)	960
Share repurchases	(117)	(150)
Cash dividends	(607)	(592)
Other – net	16	(36)
Total Financing Activities	(1,943)	(430)
Increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents	1,269	(818)
Cash, cash equivalents, restricted cash, and restricted cash equivalents - beginning of period	2,990	3,843

Cash, cash equivalents, restricted cash, and restricted cash equivalents - end of period	<u><u>\$ 4,259</u></u>	<u><u>\$ 3,025</u></u>
Reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents to the consolidated balance sheets		
Cash and cash equivalents	\$ 948	\$ 932
Restricted cash and restricted cash equivalents included in segregated cash and investments	<u>3,311</u>	<u>2,093</u>
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	<u><u>\$ 4,259</u></u>	<u><u>\$ 3,025</u></u>

Supplemental Disclosure of Noncash Investing Activity:

Retained interest in securitized receivables	\$ 4,656	\$ 5,657
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See notes to consolidated financial statements.

Archer-Daniels-Midland-Company

**Consolidated Statements of Shareholders' Equity
(Unaudited)**

	Common Stock		Reinvested Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Shareholders' Equity
	Shares	Amount				
(In millions, except per share amounts)						
Balance, June 30, 2020	556	\$ 2,705	\$ 19,293	\$ (2,705)	\$ 18	\$ 19,311
Comprehensive income						
Net earnings			225		1	
Other comprehensive income (loss)				(44)	1	
Total comprehensive income						183
Dividends paid - \$0.36 per share			(202)			(202)
Share repurchases	—		(5)			(5)
Stock compensation expense	—	39				39
Other	—	16	—	—	(1)	15
Balance, September 30, 2020	556	\$ 2,760	\$ 19,311	\$ (2,749)	\$ 19	\$ 19,341
Balance, December 31, 2019	557	\$ 2,655	\$ 18,958	\$ (2,405)	\$ 17	\$ 19,225
Impact of ASC 326 (see Note 2)			(8)			(8)
Balance, January 1, 2020	557	\$ 2,655	\$ 18,950	\$ (2,405)	\$ 17	\$ 19,217
Comprehensive income						
Net earnings			1,085		4	
Other comprehensive income (loss)				(344)	5	
Total comprehensive income						750
Dividends paid - \$1.08 per share			(607)			(607)
Share repurchases	(3)		(117)			(117)
Stock compensation expense	2	114				114
Other	—	(9)	—		(7)	(16)
Balance, September 30, 2020	556	\$ 2,760	\$ 19,311	\$ (2,749)	\$ 19	\$ 19,341
Balance, June 30, 2019	558	\$ 2,588	\$ 18,497	\$ (2,130)	\$ 24	\$ 18,979
Comprehensive income						
Net earnings			407		1	
Other comprehensive income (loss)				(265)	(1)	
Total comprehensive income						142
Dividends paid - \$0.35 per share			(197)			(197)
Share repurchases	(2)		(56)			(56)
Stock compensation expense	1	21				21
Other	—	8	—	—	(2)	6
Balance, September 30, 2019	557	\$ 2,617	\$ 18,651	\$ (2,395)	\$ 22	\$ 18,895
Balance, December 31, 2018	559	\$ 2,560	\$ 18,527	\$ (2,106)	\$ 15	\$ 18,996
Comprehensive income						
Net earnings			875		5	
Other comprehensive income (loss)				(289)	(1)	
Total comprehensive income						590
Dividends paid - \$1.05 per share			(592)			(592)
Share repurchases	(4)		(150)			(150)
Stock compensation expense	2	66				66
Other	—	(9)	(9)	—	3	(15)
Balance, September 30, 2019	557	\$ 2,617	\$ 18,651	\$ (2,395)	\$ 22	\$ 18,895

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See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these statements do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. The Company consolidates all entities, including variable interest entities (VIEs), in which it has a controlling financial interest. For VIEs, the Company assesses whether it is the primary beneficiary as defined under the applicable accounting standard. Investments in affiliates, including VIEs through which the Company exercises significant influence but does not control the investee and is not the primary beneficiary of the investee's activities, are carried at cost plus equity in undistributed earnings since acquisition and are adjusted, where appropriate, for basis differences between the investment balance and the underlying net assets of the investee. The Company's portion of the results of certain affiliates and results of certain VIEs are included using the most recent available financial statements. In each case, the financial statements are within 93 days of the Company's year end and are consistent from period to period.

Reclassifications

Effective January 1, 2020, the Company started reporting its newly created dry mill ethanol subsidiary, Vantage Corn Processors (VCP), as a sub-segment within the Carbohydrate Solutions segment. VCP replaces the Bioproducts sub-segment which included the combined results of the Company's corn dry and wet mill ethanol operations. The wet mill ethanol operations that were previously reported in Bioproducts are now included in the Starches and Sweeteners sub-segment. In addition to dry mill ethanol production, VCP sells/brokers ADM's wet mill ethanol production as the sole marketer of ethanol produced at the Company's facilities. The change does not have an impact on the total results of the Carbohydrate Solutions segment.

Prior period information in Notes 4 and 14 has been reclassified to conform to the current period segment presentation.

Segregated Cash and Investments

The Company segregates certain cash, cash equivalents, and investment balances in accordance with regulatory requirements, commodity exchange requirements, and insurance arrangements. These balances represent deposits received from customers of the Company's registered futures commission merchant and commodity brokerage services, cash margins and securities pledged to commodity exchange clearinghouses, and cash pledged as security under certain insurance arrangements. Segregated cash and investments also include restricted cash collateral for the various insurance programs of the Company's captive insurance business. To the degree these segregated balances are comprised of cash and cash equivalents, they are considered restricted cash and cash equivalents on the consolidated statements of cash flows.

Receivables

The Company records receivables at net realizable value in trade receivables, other current assets, and other assets. These amounts include allowances for estimated uncollectible accounts totaling \$105 million and \$110 million at September 30, 2020 and December 31, 2019, respectively, to reflect any loss anticipated on the accounts receivable balances including any accrued interest receivables thereon. Long-term receivables recorded in other assets were not material to the Company's overall receivables portfolio.

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 1. Basis of Presentation (Continued)

Effective January 1, 2020, the Company adopted Accounting Standards Codification (ASC) Topic 326, *Financial Instruments - Credit Losses* (Topic 326), and developed a new methodology for estimating uncollectible accounts. Under this methodology, receivables are pooled according to type, region, credit risk rating, and age. Each pool is assigned an expected loss co-efficient to arrive at a general reserve based on historical write-offs adjusted, as needed, for regional, economic, and other forward-looking factors. The Company minimizes credit risk due to the large and diversified nature of its worldwide customer base. ADM manages its exposure to counter-party credit risk through credit analysis and approvals, credit limits, and monitoring procedures.

The Company recorded bad debt expense in selling, general, and administrative expenses of \$7 million and \$32 million in the three and nine months ended September 30, 2020, respectively, and \$3 million and \$10 million in the three and nine months ended September 30, 2019.

Inventory Valuation

Effective January 1, 2020, the Company changed the method of accounting for certain of its agricultural commodity inventories from the last-in, first-out (LIFO) method to market value in the Ag Services and Oilseeds segment. As of December 31, 2019, inventories accounted for using LIFO at the lower of cost or net realizable value represented approximately 10% of consolidated inventories. The Company believes market value is preferable because it: (i) conforms to the inventory valuation methodology used for the majority of ADM's agricultural commodity inventories; (ii) enhances the matching of inventory costs with revenues and better reflects the current cost of inventory on the Company's balance sheet; and (iii) provides better comparability with the Company's peers.

The Company concluded that the accounting change does not have a material effect on prior periods' financial statements and elected not to apply the change on a retrospective basis. As a result, the Company recorded a reduction in cost of products sold of \$91 million (\$69 million after tax, equal to \$0.12 per diluted share) for the cumulative effect of the change in the three months ended March 31, 2020 with no impact to the statement of cash flows. The Company does not expect the change to have a material impact on its results for the year ending December 31, 2020.

If the Company had not made the accounting change, the effect of LIFO valuation on ADM's operating results would have been an increase in cost of products sold of \$50 million (\$38 million after tax, equal to \$0.07 per diluted share) in the three months ended September 30, 2020 and an increase in cost of goods sold of \$7 million (\$5 million after tax, equal to \$0.01 per diluted share) in the nine months ended September 30, 2020, with no impact to the consolidated statement of cash flows.

Note 2. New Accounting Standards

Effective January 1, 2020, the Company adopted the amended guidance of Topic 326, which is intended to improve financial reporting by requiring more timely recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The amended guidance replaces the prior "incurred loss" approach with an "expected loss" model and requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The Company was required to adopt the amended guidance on a modified retrospective basis through a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. The Company evaluated its current methodology of estimating allowance for doubtful accounts and the risk profile of its receivable portfolio and developed a model that includes the qualitative and forecasting aspects of the "expected loss" model under the amended guidance. The Company finalized its assessment of the impact of the amended guidance and recorded a \$8 million cumulative effect adjustment to retained earnings at January 1, 2020. For more information about the Company's receivables, see Note 1.

Effective January 1, 2020, the Company adopted the amended guidance of ASC Topic 820, *Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements. The adoption of this amended guidance did not impact the Company's financial results.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued) (Unaudited)

Note 3. Pending Accounting Standards

Effective December 31, 2020, the Company will be required to adopt the amended guidance of ASC Subtopic 715-20, *Compensation - Retirement Benefits - Defined Benefit Plans - General*, which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Early adoption is permitted. The adoption of this amended guidance will not impact the Company's financial results.

Effective January 1, 2021, the Company will be required to adopt the amended guidance of ASC Topic 740, *Income Taxes* (Topic 740), which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify other areas of Topic 740. Early adoption is permitted. The Company has not yet completed its assessment of the impact of the amended guidance on the consolidated financial statements but does not expect the adoption of the amendments to have a significant impact on its financial results.

Through December 31, 2022, the Company has the option to adopt the amended guidance of ASC Topic 848, *Reference Rate Reform*, which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the amended guidance do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. The Company plans to adopt the expedients and exceptions provided by the amended guidance before the December 31, 2022 expiry date but has not yet completed its assessment of the impact on the consolidated financial statements.

Note 4. Revenues

Revenue Recognition

The Company principally generates revenue from merchandising and transporting agricultural commodities and manufactured products used as ingredients in food, feed, energy, and industrial products. Revenue is measured based on the consideration specified in the contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Company follows a policy of recognizing revenue at a single point in time when it satisfies its performance obligation by transferring control over a product or service to a customer. The majority of the Company's contracts with customers have one performance obligation and a contract duration of one year or less. The Company applies the practical expedient in paragraph 10-50-14 of ASC 606, *Revenue from Contracts with Customers* (Topic 606) and does not disclose information about remaining performance obligations that have original expected durations of one year or less. For transportation service contracts, the Company recognizes revenue over time as the barge, ocean-going vessel, truck, rail, or container freight moves towards its destination in accordance with the transfer of control guidance of Topic 606. The Company recognized revenue from transportation service contracts of \$87 million and \$310 million for the three and nine months ended September 30, 2020, respectively, and \$134 million and \$377 million for the three and nine months ended September 30, 2019, respectively. For physically settled derivative sales contracts that are outside the scope of Topic 606, the Company recognizes revenue when control of the inventory is transferred within the meaning of Topic 606 as required by ASC 610-20, *Gains and Losses from the Derecognition of Nonfinancial Assets* (Topic 610-20).

Shipping and Handling Costs

Shipping and handling costs related to contracts with customers for the sale of goods are accounted for as a fulfillment activity and are included in cost of products sold. Accordingly, amounts billed to customers for such costs are included as a component of revenues.

Taxes Collected from Customers and Remitted to Governmental Authorities

The Company does not include taxes assessed by governmental authorities that are (i) imposed on and concurrent with a specific revenue-producing transaction and (ii) collected from customers, in the measurement of transactions prices or as a component of revenues and cost of products sold.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 4. Revenues (Continued)

Contract Liabilities

Contract liabilities relate to advance payments from customers for goods and services that the Company has yet to provide. Contract liabilities of \$344 million and \$604 million as of September 30, 2020 and December 31, 2019, respectively, were recorded in accrued expenses and other payables in the consolidated balance sheets. Contract liabilities recognized as revenues for the three and nine months ended September 30, 2020 were \$121 million and \$742 million, respectively, and \$193 million and \$519 million for the three and nine months ended September 30, 2019, respectively.

Disaggregation of Revenues

The following tables present revenue disaggregated by timing of recognition and major product lines for the three and nine months ended September 30, 2020 and 2019.

	Three Months Ended September 30, 2020					
	Topic 606 Revenue			Topic 815 ⁽¹⁾ Revenue	Total Revenues	
	Point in Time	Over Time	Total			
	(In millions)					
Ag Services and Oilseeds						
Ag Services	\$ 776	\$ 87	\$ 863	\$ 6,489	\$ 7,352	
Crushing	113	—	113	2,204	2,317	
Refined Products and Other	462	—	462	1,396	1,858	
Total Ag Services and Oilseeds	1,351	87	1,438	10,089	11,527	
Carbohydrate Solutions						
Starches and Sweeteners	1,162	—	1,162	412	1,574	
Vantage Corn Processors	490	—	490	—	490	
Total Carbohydrate Solutions	1,652	—	1,652	412	2,064	
Nutrition						
Human Nutrition	719	—	719	—	719	
Animal Nutrition	732	—	732	—	732	
Total Nutrition	1,451	—	1,451	—	1,451	
Other Business	84	—	84	—	84	
Total Revenues	\$ 4,538	\$ 87	\$ 4,625	\$ 10,501	\$ 15,126	

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 4. Revenues (Continued)

	Nine Months Ended September 30, 2020					
	Topic 606 Revenue			Topic 815 ⁽¹⁾ Revenue	Total Revenues	
	Point in Time	Over Time	Total			
	(In millions)					
Ag Services and Oilseeds						
Ag Services	\$ 2,504	\$ 310	\$ 2,814	\$ 20,116	\$ 22,930	
Crushing	493	—	493	6,542	7,035	
Refined Products and Other	1,501	—	1,501	3,881	5,382	
Total Ag Services and Oilseeds	4,498	310	4,808	30,539	35,347	
Carbohydrate Solutions						
Starches and Sweeteners	3,539	—	3,539	1,230	4,769	
Vantage Corn Processors	1,625	—	1,625	—	1,625	
Total Carbohydrate Solutions	5,164	—	5,164	1,230	6,394	
Nutrition						
Human Nutrition	2,161	—	2,161	—	2,161	
Animal Nutrition	2,198	—	2,198	—	2,198	
Total Nutrition	4,359	—	4,359	—	4,359	
Other Business	277	—	277	—	277	
Total Revenues	\$ 14,298	\$ 310	\$ 14,608	\$ 31,769	\$ 46,377	

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 4. Revenues (Continued)

Three Months Ended September 30, 2019						
	Topic 606 Revenue			Topic 815 ⁽¹⁾ Revenue	Total Revenues	
	Point in Time	Over Time	Total			
	(In millions)					
Ag Services and Oilseeds						
Ag Services	\$ 1,369	\$ 134	\$ 1,503	\$ 6,743	\$ 8,246	
Crushing	175	—	175	2,290	2,465	
Refined Products and Other	628	—	628	1,277	1,905	
Total Ag Services and Oilseeds	2,172	134	2,306	10,310	12,616	
Carbohydrate Solutions						
Starches and Sweeteners	1,098	—	1,098	428	1,526	
Vantage Corn Processors	1,039	—	1,039	—	1,039	
Total Carbohydrate Solutions	2,137	—	2,137	428	2,565	
Nutrition						
Human Nutrition	703	—	703	—	703	
Animal Nutrition	754	—	754	—	754	
Total Nutrition	1,457	—	1,457	—	1,457	
Other Business	88	—	88	—	88	
Total Revenues	\$ 5,854	\$ 134	\$ 5,988	\$ 10,738	\$ 16,726	

Nine Months Ended September 30, 2019						
	Topic 606 Revenue			Topic 815 ⁽¹⁾ Revenue	Total Revenues	
	Point in Time	Over Time	Total			
	(In millions)					
Ag Services and Oilseeds						
Ag Services	\$ 2,509	\$ 377	\$ 2,886	\$ 20,767	\$ 23,653	
Crushing	546	—	546	6,584	7,130	
Refined Products and Other	1,665	—	1,665	3,934	5,599	
Total Ag Services and Oilseeds	4,720	377	5,097	31,285	36,382	
Carbohydrate Solutions						
Starches and Sweeteners	3,507	—	3,507	1,275	4,782	
Vantage Corn Processors	2,627	—	2,627	—	2,627	
Total Carbohydrate Solutions	6,134	—	6,134	1,275	7,409	
Nutrition						
Human Nutrition	2,105	—	2,105	—	2,105	
Animal Nutrition	2,158	—	2,158	—	2,158	
Total Nutrition	4,263	—	4,263	—	4,263	
Other Business	273	—	273	—	273	
Total Revenues	\$ 15,390	\$ 377	\$ 15,767	\$ 32,560	\$ 48,327	

⁽¹⁾ Topic 815 revenue relates to the physical delivery or the settlement of the Company's sales contracts that are accounted for as derivatives and are outside the scope of Topic 606.

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 4. Revenues (Continued)

Ag Services and Oilseeds

The Ag Services and Oilseeds segment generates revenue from the sale of commodities, from service fees for the transportation of goods, and from the sale of products manufactured in its global processing facilities. Revenue is measured based on the consideration specified in the contract and excludes any sales incentives and amounts collected on behalf of third parties. Revenue is recognized when a performance obligation is satisfied by transferring control over a product or providing service to a customer. For transportation service contracts, the Company recognizes revenue over time as the barge, ocean-going vessel, truck, rail, or container freight moves towards its destination in accordance with the transfer of control guidance of Topic 606. The amount of revenue recognized follows the contractually specified price which may include freight or other contractually specified cost components. For physically settled derivative sales contracts that are outside the scope of Topic 606, the Company recognizes revenue when control of the inventory is transferred within the meaning of Topic 606 as required by Topic 610-20.

Carbohydrate Solutions

The Carbohydrate Solutions segment generates revenue from the sale of products manufactured at the Company's global corn and wheat milling facilities around the world. Revenue is recognized when control over products is transferred to the customer. Products are shipped to customers from the Company's various facilities and from its network of storage terminals. The amount of revenue recognized is based on the consideration specified in the contract which could include freight and other costs depending on the specific shipping terms of each contract. For physically settled derivative sales contracts that are outside the scope of Topic 606, the Company recognizes revenue when control of the inventory is transferred within the meaning of Topic 606 as required by Topic 610-20.

Nutrition

The Nutrition segment sells specialty products including natural flavor ingredients, flavor systems, natural colors, animal nutrition products, and other specialty food and feed ingredients. Revenue is recognized when control over products is transferred to the customer. The amount of revenue recognized follows the contracted price or the mutually agreed price of the product. Freight and shipping are recognized as a component of revenue at the same time control transfers to the customer.

Other Business

Other Business includes the Company's futures commission business whose primary sources of revenue are commissions and brokerage income generated from executing orders and clearing futures contracts and options on futures contracts on behalf of its customers. Commissions and brokerage revenue are recognized on the date the transaction is executed. Other Business also includes the Company's captive insurance business which generates third party revenue through its proportionate share of premiums from third-party reinsurance pools. Reinsurance premiums are recognized on a straight-line basis over the period underlying the policy.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements

The following tables set forth, by level, the Company's assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2020 and December 31, 2019.

Fair Value Measurements at September 30, 2020				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In millions)			
Assets:				
Inventories carried at market	\$ —	\$ 3,572	\$ 2,092	\$ 5,664
Unrealized derivative gains:				
Commodity contracts	—	894	580	1,474
Foreign currency contracts	—	292	—	292
Interest rate contracts	—	32	—	32
Cash equivalents	496	—	—	496
Marketable securities	9	—	—	9
Segregated investments	1,158	—	—	1,158
Deferred receivables consideration	—	272	—	272
Total Assets	\$ 1,663	\$ 5,062	\$ 2,672	\$ 9,397
Liabilities:				
Unrealized derivative losses:				
Commodity contracts	\$ —	\$ 592	\$ 796	\$ 1,388
Foreign currency contracts	—	547	—	547
Interest rate contracts	—	34	—	34
Debt conversion option	—	—	32	32
Inventory-related payables	—	482	7	489
Total Liabilities	\$ —	\$ 1,655	\$ 835	\$ 2,490

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

Fair Value Measurements at December 31, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In millions)			
Assets:				
Inventories carried at market	\$ —	\$ 3,227	\$ 1,477	\$ 4,704
Unrealized derivative gains:				
Commodity contracts	—	277	201	478
Foreign currency contracts	—	138	—	138
Interest rate contracts	—	3	—	3
Cash equivalents	505	—	—	505
Marketable securities	5	—	—	5
Segregated investments	628	—	—	628
Deferred receivables consideration	—	446	—	446
Total Assets	<u>\$ 1,138</u>	<u>\$ 4,091</u>	<u>\$ 1,678</u>	<u>\$ 6,907</u>
Liabilities:				
Unrealized derivative losses:				
Commodity contracts	\$ —	\$ 375	\$ 199	\$ 574
Foreign currency contracts	—	125	—	125
Interest rate contracts	—	43	—	43
Inventory-related payables	—	702	27	729
Total Liabilities	<u>\$ —</u>	<u>\$ 1,245</u>	<u>\$ 226</u>	<u>\$ 1,471</u>

Estimated fair values for inventories carried at market are based on exchange-quoted prices, adjusted for differences in local markets and quality, referred to as basis. Market valuations for the Company's inventories are adjusted for location and quality (basis) because the exchange-quoted prices represent contracts that have standardized terms for commodity, quantity, future delivery period, delivery location, and commodity quality or grade. The basis adjustments are generally determined using the inputs from broker or dealer quotations or market transactions in either the listed or over the counter (OTC) markets and are considered observable. In some cases, the basis adjustments are unobservable because they are supported by little to no market activity. When unobservable inputs have a significant impact on the measurement of fair value, the inventory is classified in Level 3. Changes in the fair value of inventories are recognized in the consolidated statements of earnings as a component of cost of products sold.

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

Derivative contracts include exchange-traded commodity futures and options contracts, forward commodity purchase and sale contracts, and OTC instruments related primarily to agricultural commodities, energy, interest rates, and foreign currencies. Exchange-traded futures and options contracts are valued based on unadjusted quoted prices in active markets and are classified in Level 1. The majority of the Company's exchange-traded futures and options contracts are cash-settled on a daily basis and, therefore, are not included in these tables. Fair value for forward commodity purchase and sale contracts is estimated based on exchange-quoted prices adjusted for differences in local markets. Market valuations for the Company's forward commodity purchase and sale contracts are adjusted for location (basis) because the exchange-quoted prices represent contracts that have standardized terms for commodity, quantity, future delivery period, delivery location, and commodity quality or grade. The basis adjustments are generally determined using inputs from broker or dealer quotations or market transactions in either the listed or OTC markets and are considered observable. In some cases, the basis adjustments are unobservable because they are supported by little to no market activity. When observable inputs are available for substantially the full term of the contract, it is classified in Level 2. When unobservable inputs have a significant impact (more than 10%) on the measurement of fair value, the contract is classified in Level 3. Except for certain derivatives designated as cash flow hedges, changes in the fair value of commodity-related derivatives are recognized in the consolidated statements of earnings as a component of cost of products sold. Changes in the fair value of foreign currency-related derivatives are recognized in the consolidated statements of earnings as a component of revenues, cost of products sold, or other (income) expense - net, depending upon the purpose of the contract. The changes in the fair value of derivatives designated as effective cash flow hedges are recognized in the consolidated balance sheets as a component of accumulated other comprehensive income (loss) (AOCI) until the hedged items are recorded in earnings or it is probable the hedged transaction will no longer occur.

The Company's cash equivalents are comprised of money market funds valued using quoted market prices and are classified as Level 1.

The Company's segregated investments are comprised of U.S. Treasury securities. U.S. Treasury securities are valued using quoted market prices and are classified in Level 1.

The Company has deferred consideration under its accounts receivable securitization program (the "First Program") which represents notes receivable from the purchasers under the First Program (see Note 16 for more information). This amount is reflected in other current assets on the consolidated balance sheets (see Note 7 for more information). The Company carries the deferred receivables consideration at fair value determined by calculating the expected amount of cash to be received. The fair value is principally based on observable inputs (a Level 2 measurement) consisting mainly of the face amount of the receivables adjusted for anticipated credit losses and discounted at the appropriate market rate. Payment of deferred receivables consideration is not subject to significant risks other than delinquencies and credit losses on accounts receivable transferred under the First Program, which have historically been insignificant.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

The following table presents a rollforward of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended September 30, 2020.

Level 3 Fair Value Asset Measurements at September 30, 2020			
	Inventories Carried at Market	Commodity Derivative Contracts Gains	Total Assets
	(In millions)		
Balance, June 30, 2020	\$ 1,399	\$ 442	\$ 1,841
Total increase (decrease) in net realized/unrealized gains included in cost of products sold*	258	286	544
Purchases	3,181	—	3,181
Sales	(2,703)	—	(2,703)
Settlements	—	(96)	(96)
Transfers into Level 3	290	13	303
Transfers out of Level 3	(333)	(65)	(398)
Ending balance, September 30, 2020	\$ 2,092	\$ 580	\$ 2,672

* Includes increase in unrealized gains of \$392 million relating to Level 3 assets still held at September 30, 2020.

The following table presents a rollforward of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended September 30, 2020.

Level 3 Fair Value Liability Measurements at September 30, 2020				
	Inventory- related Payables	Commodity Derivative Contracts Losses	Debt Conversion Option	Total Liabilities
	(In millions)			
Balance, June 30, 2020	\$ 14	\$ 363	\$ —	\$ 377
Total increase (decrease) in net realized/unrealized losses included in cost of products sold and interest expense*	(3)	618	15	630
Purchases and issuance of debt conversion option	3	—	17	20
Sales	(7)	—	—	(7)
Settlements	—	(188)	—	(188)
Transfers into Level 3	—	24	—	24
Transfers out of Level 3	—	(21)	—	(21)
Ending balance, September 30, 2020	\$ 7	\$ 796	\$ 32	\$ 835

* Includes increase in unrealized losses of \$635 million relating to Level 3 liabilities still held at September 30, 2020.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

The following table presents a rollforward of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended September 30, 2019.

Level 3 Fair Value Asset Measurements at September 30, 2019			
	Inventories Carried at Market	Commodity Derivative Contracts Gains	Total Assets
	(In millions)		
Balance, June 30, 2019	\$ 1,388	\$ 159	\$ 1,547
Total increase (decrease) in net realized/unrealized gains included in cost of products sold*	27	91	118
Purchases	2,772	—	2,772
Sales	(2,643)	—	(2,643)
Settlements	—	(106)	(106)
Transfers into Level 3	213	21	234
Transfers out of Level 3	(327)	(4)	(331)
Ending balance, September 30, 2019	<u>\$ 1,430</u>	<u>\$ 161</u>	<u>\$ 1,591</u>

* Includes increase in unrealized gains of \$165 million relating to Level 3 assets still held at September 30, 2019.

The following table presents a rollforward of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended September 30, 2019.

Level 3 Fair Value Liability Measurements at September 30, 2019			
	Inventory- related Payables	Commodity Derivative Contracts Losses	Total Liabilities
	(In millions)		
Balance, June 30, 2019	\$ 22	\$ 216	\$ 238
Total increase (decrease) in net realized/unrealized losses included in cost of products sold*	(3)	82	79
Purchases	26	—	26
Sales	(4)	—	(4)
Settlements	—	(167)	(167)
Transfers into Level 3	—	13	13
Transfers out of Level 3	—	(4)	(4)
Ending balance, September 30, 2019	<u>\$ 41</u>	<u>\$ 140</u>	<u>\$ 181</u>

* Includes increase in unrealized losses of \$81 million relating to Level 3 liabilities still held at September 30, 2019.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

The following table presents a rollforward of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the nine months ended September 30, 2020.

Level 3 Fair Value Asset Measurements at September 30, 2020			
	Inventories Carried at Market	Commodity Derivative Contracts Gains	Total Assets
	(In millions)		
Balance, December 31, 2019	\$ 1,477	\$ 201	\$ 1,678
Total increase (decrease) in net realized/unrealized gains included in cost of products sold*	626	732	1,358
Purchases	9,600	—	9,600
Sales	(9,838)	—	(9,838)
Settlements	—	(331)	(331)
Transfers into Level 3	290	57	347
Transfers out of Level 3	(63)	(79)	(142)
Ending balance, September 30, 2020	<u>\$ 2,092</u>	<u>\$ 580</u>	<u>\$ 2,672</u>

* Includes increase in unrealized gains of \$1.2 billion relating to Level 3 assets still held at September 30, 2020.

The following table presents a rollforward of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the nine months ended September 30, 2020.

Level 3 Fair Value Liability Measurements at September 30, 2020				
	Inventory- related Payables	Commodity Derivative Contracts Losses	Debt Conversion Option	Total Liabilities
	(In millions)			
Balance, December 31, 2019	\$ 27	\$ 199	\$ —	\$ 226
Total increase (decrease) in net realized/unrealized losses included in cost of products sold and interest expense*	1	1,070	15	1,086
Purchases and issuance of debt conversion option	11	—	17	28
Sales	(32)	—	—	(32)
Settlements	—	(521)	—	(521)
Transfers into Level 3	—	79	—	79
Transfers out of Level 3	—	(31)	—	(31)
Ending balance, September 30, 2020	<u>\$ 7</u>	<u>\$ 796</u>	<u>\$ 32</u>	<u>\$ 835</u>

* Includes increase in unrealized losses of \$1.1 billion relating to Level 3 liabilities still held at September 30, 2020.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

The following table presents a rollforward of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the nine months ended September 30, 2019.

Level 3 Fair Value Asset Measurements at			
September 30, 2019			
	Inventories Carried at Market	Commodity Derivative Contracts Gains	Total Assets
	(In millions)		
Balance, December 31, 2018	\$ 1,515	\$ 155	\$ 1,670
Total increase (decrease) in net realized/unrealized gains included in cost of products sold*	148	319	467
Purchases	8,118	—	8,118
Sales	(8,425)	—	(8,425)
Settlements	—	(346)	(346)
Transfers into Level 3	213	54	267
Transfers out of Level 3	(139)	(21)	(160)
Ending balance, September 30, 2019	<u>\$ 1,430</u>	<u>\$ 161</u>	<u>\$ 1,591</u>

* Includes increase in unrealized gains of \$656 million relating to Level 3 assets still held at September 30, 2019.

The following table presents a rollforward of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the nine months ended September 30, 2019.

Level 3 Fair Value Liability Measurements at			
September 30, 2019			
	Inventory- related Payables	Commodity Derivative Contracts Losses	Total Liabilities
	(In millions)		
Balance, December 31, 2018	\$ 18	\$ 245	\$ 263
Total increase (decrease) in net realized/unrealized losses included in cost of products sold*	(2)	254	252
Purchases	41	—	41
Sales	(16)	—	(16)
Settlements	—	(354)	(354)
Transfers into Level 3	—	37	37
Transfers out of Level 3	—	(42)	(42)
Ending balance, September 30, 2019	<u>\$ 41</u>	<u>\$ 140</u>	<u>\$ 181</u>

* Includes increase in unrealized losses of \$258 million relating to Level 3 liabilities still held at September 30, 2019.

Transfers into Level 3 of assets and liabilities previously classified in Level 2 were due to the relative value of unobservable inputs to the total fair value measurement of certain products and derivative contracts rising above the 10% threshold. Transfers out of Level 3 were primarily due to the relative value of unobservable inputs to the total fair value measurement of certain products and derivative contracts falling below the 10% threshold and thus permitting reclassification to Level 2.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

In some cases, the price components that result in differences between exchange-traded prices and local prices for inventories and commodity purchase and sale contracts are observable based upon available quotations for these pricing components, and in some cases, the differences are unobservable. These price components primarily include transportation costs and other adjustments required due to location, quality, or other contract terms. In the table below, these other adjustments are referred to as basis. The changes in unobservable price components are determined by specific local supply and demand characteristics at each facility and the overall market. Factors such as substitute products, weather, fuel costs, contract terms, and futures prices also impact the movement of these unobservable price components.

The following table sets forth the weighted average percentage of the unobservable price components included in the Company's Level 3 valuations as of September 30, 2020 and December 31, 2019. The Company's Level 3 measurements may include basis only, transportation cost only, or both price components. As an example, for Level 3 inventories with basis, the unobservable component as of September 30, 2020 is a weighted average 20.6% of the total price for assets and 56.4% of the total price for liabilities.

Component Type	Weighted Average % of Total Price			
	September 30, 2020		December 31, 2019	
	Assets	Liabilities	Assets	Liabilities
Inventories and Related Payables				
Basis	20.6%	56.4%	28.2%	14.7%
Transportation cost	15.8%	—%	24.7%	—%
Commodity Derivative Contracts				
Basis	12.6%	18.7%	16.0%	20.2%
Transportation cost	5.2%	4.3%	9.7%	3.1%

In certain of the Company's principal markets, the Company relies on price quotes from third parties to value its inventories and physical commodity purchase and sale contracts. These price quotes are generally not further adjusted by the Company in determining the applicable market price. In some cases, availability of third-party quotes is limited to only one or two independent sources. In these situations, absent other corroborating evidence, the Company considers these price quotes as 100% unobservable and, therefore, the fair value of these items is reported in Level 3.

Note 6. Derivative Instruments and Hedging Activities

Derivatives Not Designated as Hedging Instruments

The majority of the Company's derivative instruments have not been designated as hedging instruments. The Company uses exchange-traded futures and exchange-traded and OTC options contracts to manage its net position of merchandisable agricultural product inventories and forward cash purchase and sales contracts to reduce price risk caused by market fluctuations in agricultural commodities and foreign currencies. The Company also uses exchange-traded futures and exchange-traded and OTC options contracts as components of merchandising strategies designed to enhance margins. The results of these strategies can be significantly impacted by factors such as the correlation between the value of exchange-traded commodities futures contracts and the value of the underlying commodities, counterparty contract defaults, and volatility of freight markets. Derivatives, including exchange-traded contracts and physical purchase or sale contracts, and inventories of certain merchandisable agricultural product inventories, which include amounts acquired under deferred pricing contracts, are stated at market value. Inventory is not a derivative and therefore fair values of and changes in fair values of inventories are not included in the tables below.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 6. Derivative Instruments and Hedging Activities (Continued)

The following table sets forth the fair value of derivatives not designated as hedging instruments as of September 30, 2020 and December 31, 2019.

	September 30, 2020		December 31, 2019	
	Assets	Liabilities	Assets	Liabilities
	(In millions)			
Foreign Currency Contracts	\$ 276	\$ 547	\$ 125	\$ 120
Commodity Contracts	1,474	1,388	478	574
Debt Conversion Option	—	32	—	—
Total	<u>\$ 1,750</u>	<u>\$ 1,967</u>	<u>\$ 603</u>	<u>\$ 694</u>

The following tables set forth the pre-tax gains (losses) on derivatives not designated as hedging instruments that have been included in the consolidated statements of earnings for the three and nine months ended September 30, 2020 and 2019.

(In millions)	Revenues	Cost of products sold	Other expense (income) - net	Interest expense	
Three Months Ended September 30, 2020					
Consolidated Statement of Earnings	\$ 15,126	\$ 14,084	\$ 278	\$ 100	
Pre-tax gains (losses) on:					
Foreign Currency Contracts	\$ 8	\$ (77)	\$ (85)	\$ —	
Commodity Contracts	—	(272)	—	—	
Debt Conversion Option	—	—	—	(15)	
Total gain (loss) recognized in earnings	<u>\$ 8</u>	<u>\$ (349)</u>	<u>\$ (85)</u>	<u>\$ (15)</u>	<u>\$ (441)</u>
Three Months Ended September 30, 2019					
Consolidated Statement of Earnings	\$ 16,726	\$ 15,648	\$ (18)	\$ 97	
Pre-tax gains (losses) on:					
Foreign Currency Contracts	\$ 17	\$ (81)	\$ (6)	\$ —	
Commodity Contracts	—	153	—	—	
Total gain (loss) recognized in earnings	<u>\$ 17</u>	<u>\$ 72</u>	<u>\$ (6)</u>	<u>\$ —</u>	<u>\$ 83</u>

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 6. Derivative Instruments and Hedging Activities (Continued)

(In millions)	Revenues	Cost of products sold	Other expense (income) - net	Interest expense	
Nine Months Ended September 30, 2020					
Consolidated Statement of Earnings	\$ 46,377	\$ 43,276	\$ 179	270	
Pre-tax gains (losses) on:					
Foreign Currency Contracts	\$ 54	\$ (738)	\$ (13)	\$ —	
Commodity Contracts	—	321	55	—	
Debt Conversion Option	—	—	—	(15)	
Total gain (loss) recognized in earnings	<u>\$ 54</u>	<u>\$ (417)</u>	<u>\$ 42</u>	<u>\$ (15)</u>	<u>\$ (336)</u>
Nine Months Ended September 30, 2019					
Consolidated Statement of Earnings	\$ 48,327	\$ 45,349	\$ (39)	\$ 307	
Pre-tax gains (losses) on:					
Foreign Currency Contracts	\$ 15	\$ (30)	\$ (22)	\$ —	
Commodity Contracts	—	142	—	—	
Total gain (loss) recognized in earnings	<u>\$ 15</u>	<u>\$ 112</u>	<u>\$ (22)</u>	<u>\$ —</u>	<u>\$ 105</u>

Changes in the market value of inventories of certain merchandisable agricultural product inventories, forward cash purchase and sales contracts, exchange-traded futures and exchange-traded and OTC options contracts are recognized in earnings immediately as a component of cost of products sold.

Derivatives Designated as Cash Flow, Fair Value or Net Investment Hedging Strategies

The Company had certain derivatives designated as cash flow and net investment hedges as of September 30, 2020 and cash flow, fair value, and net investment hedges as of December 31, 2019.

For derivative instruments that were designated and qualify as fair value hedges, changes in the fair value of the hedging instrument and changes in the fair value of the hedged item were recognized in the consolidated statement of earnings during the period.

The Company used interest rate swaps designated as fair value hedges to protect the fair value of \$495 million in fixed-rate debt due to changes in interest rates. The terms of the interest rate swaps matched the terms of the underlying debt. At December 31, 2019, the Company had \$3 million in other current assets representing the fair value of the interest rate swaps and a corresponding increase in the underlying debt for the same amount with no net impact to earnings. In June 2020, the Company redeemed the debt and recorded a gain of \$8 million from the termination of the swaps.

For derivative instruments that are designated and qualify as net investment hedges, foreign exchange gains and losses related to changes in foreign currency exchange rates are deferred in AOCI until the underlying investment is divested.

The Company uses cross-currency swaps and foreign exchange forwards designated as net investment hedges to protect the Company's investment in a foreign subsidiary against changes in foreign currency exchange rates. The Company executed USD-fixed to Euro-fixed cross-currency swaps with an aggregate notional amount of \$1.3 billion and \$1.2 billion as of September 30, 2020 and December 31, 2019, respectively, and foreign exchange forwards with an aggregate notional amount of \$1.8 billion as of September 30, 2020.

As of September 30, 2020 and December 31, 2019, the Company had after-tax losses of \$80 million and after-tax gains of \$6 million in AOCI, respectively, related to foreign exchange gains and losses from these net investment hedge transactions. The amount is deferred in AOCI until the underlying investment is divested.

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 6. Derivative Instruments and Hedging Activities (Continued)

For derivative instruments that are designated and qualify as highly-effective cash flow hedges (i.e., hedging the exposure to variability in expected future cash flow that is attributable to a particular risk), the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income (loss) (AOCI) and as an operating activity in the statement of cash flows and reclassified into earnings in the same line item affected by the hedged transaction and in the same period or periods during which the hedged transaction affects earnings. Hedge components excluded from the assessment of effectiveness and gains and losses related to discontinued hedges are recognized in the consolidated statement of earnings during the current period.

The Company uses interest rate swaps designated as cash flow hedges to hedge the forecasted interest payments on certain letters of credit from banks. The terms of the interest rate swaps match the terms of the forecasted interest payments. The deferred gains and losses are recognized in other (income) expense - net over the period in which the related interest payments are paid to the banks.

The Company also uses swap locks designated as cash flow hedges to hedge the changes in the forecasted interest payments due to changes in the benchmark rate leading up to future bond issuance dates. The terms of the swap locks match the terms of the forecasted interest payments. The deferred gains and losses will be recognized in interest expense over the period in which the related interest payments will be paid. During the nine months ended September 30, 2020, the Company executed swap locks maturing on various dates with an aggregate notional amount of \$550 million.

As of September 30, 2020 and December 31, 2019, the Company had after-tax losses of \$8 million and \$43 million in AOCI, respectively, related to the interest rate swaps and the swap locks. The Company expects to recognize this amount in its consolidated statements of earnings during the life of the instruments.

For each of the hedge programs described below, the derivatives are designated as cash flow hedges. The changes in the market value of such derivative contracts have historically been, and are expected to continue to be, highly effective at offsetting changes in price movements of the hedged item. Once the hedged item is recognized in earnings, the gains and losses arising from the hedge are reclassified from AOCI to either revenues or cost of products sold, as applicable. As of September 30, 2020 and December 31, 2019, the Company had after-tax losses of \$41 million and \$5 million in AOCI, respectively, related to gains and losses from these programs. The Company expects to recognize \$41 million of the September 30, 2020 after-tax losses in its consolidated statements of earnings during the next 12 months.

The Company uses futures or options contracts to hedge the purchase price of anticipated volumes of corn to be purchased and processed in a future month. The objective of this hedging program is to reduce the variability of cash flows associated with the Company's forecasted purchases of corn. The Company's corn processing plants normally grind approximately 72 million bushels of corn per month. Due to the temporarily idled dry mill assets, the Company is currently grinding approximately 56 million bushels of corn per month. During the past 12 months, the Company hedged between 20% and 60% of its monthly grind. At September 30, 2020, the Company had designated hedges representing between 11% and 34% of its anticipated monthly grind of corn for the next 12 months.

The Company, from time to time, also uses futures, options, and swaps to hedge the sales price of certain ethanol sales contracts. The Company has established hedging programs for ethanol sales contracts that are indexed to unleaded gasoline prices and to various exchange-traded ethanol contracts. The objective of these hedging programs is to reduce the variability of cash flows associated with the Company's sales of ethanol. During the past 12 months, the Company hedged between 0 and 91 million gallons of ethanol sales per month under these programs. The Company had no hedges related to ethanol sales as of September 30, 2020.

The Company uses futures and options contracts to hedge the purchase price of anticipated volumes of soybeans to be purchased and processed in a future month for certain of its U.S. soybean crush facilities. The Company also uses futures or options contracts to hedge the sales prices of anticipated soybean meal and soybean oil sales proportionate to the soybean crushing process at these facilities. During the past 12 months, the Company hedged between 52% and 100% of the anticipated monthly soybean crush for soybean purchases and soybean meal and oil sales at the designated facilities. At September 30, 2020, the Company had designated hedges representing between 0% and 100% of the anticipated monthly soybean crush for soybean purchases and soybean meal and oil sales at the designated facilities over the next 12 months.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 6. Derivative Instruments and Hedging Activities (Continued)

The following table sets forth the fair value of derivatives designated as hedging instruments as of September 30, 2020 and December 31, 2019.

	September 30, 2020		December 31, 2019	
	Assets	Liabilities	Assets	Liabilities
	(In millions)			
Foreign Currency Contracts	\$ 16	\$ —	\$ 13	\$ 5
Interest Rate Contracts	32	34	3	43
Total	<u>\$ 48</u>	<u>\$ 34</u>	<u>\$ 16</u>	<u>\$ 48</u>

The following table sets forth the pre-tax gains (losses) on derivatives designated as hedging instruments that have been included in the consolidated statements of earnings for the three and nine months ended September 30, 2020 and 2019.

(In millions)	Revenues	Cost of products sold	Interest expense	Other expense (income) - net
Three Months Ended September 30, 2020				
Consolidated Statement of Earnings	\$ 15,126	\$ 14,084	\$ 100	\$ 278
Effective amounts recognized in earnings				
Pre-tax gains (losses) on:				
Commodity Contracts	\$ 1	\$ 79	\$ —	\$ —
Interest Contracts	—	—	—	(14)
Total gain (loss) recognized in earnings	<u>\$ 1</u>	<u>\$ 79</u>	<u>\$ —</u>	<u>\$ (14)</u>
Three Months Ended September 30, 2019				
Consolidated Statement of Earnings	\$ 16,726	\$ 15,648	\$ 97	\$ (18)
Effective amounts recognized in earnings				
Pre-tax gains (losses) on:				
Commodity Contracts	\$ 3	\$ 1	\$ —	\$ —
Interest Contracts	—	—	—	(21)
Total gain (loss) recognized in earnings	<u>\$ 3</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ (21)</u>

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 6. Derivative Instruments and Hedging Activities (Continued)

(In millions)	Revenues	Cost of products sold	Interest expense	Other expense (income) - net	
Nine Months Ended September 30, 2020					
Consolidated Statement of Earnings	\$ 46,377	\$ 43,276	\$ 270	\$ 179	
Effective amounts recognized in earnings					
Pre-tax gains (losses) on:					
Commodity Contracts	\$ 9	\$ 19	\$ —	\$ —	
Interest Contracts	—	—	(8)	(55)	
Total gain (loss) recognized in earnings	<u>\$ 9</u>	<u>\$ 19</u>	<u>\$ (8)</u>	<u>\$ (55)</u>	<u>\$ (35)</u>
Nine Months Ended September 30, 2019					
Consolidated Statement of Earnings	\$ 48,327	\$ 45,349	\$ 307	\$ (39)	
Effective amounts recognized in earnings					
Pre-tax gains (losses) on:					
Commodity Contracts	\$ (5)	\$ 7	\$ —	\$ —	
Interest Contracts	—	—	—	(29)	
Total gain (loss) recognized in earnings	<u>\$ (5)</u>	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ (29)</u>	<u>\$ (27)</u>

Other Net Investment Hedging Strategies

The Company has designated €1.5 billion and €1.7 billion of its outstanding long-term debt and commercial paper borrowings at September 30, 2020 and December 31, 2019, respectively, as hedges of its net investment in a foreign subsidiary. As of September 30, 2020 and December 31, 2019, the Company had after-tax losses of \$29 million and after-tax gains of \$7 million in AOCI, respectively, related to foreign exchange gains and losses from these net investment hedge transactions. The amount is deferred in AOCI until the underlying investment is divested.

Note 7. Other Current Assets

The following table sets forth the items in other current assets:

	September 30, 2020	December 31, 2019
	(In millions)	
Unrealized gains on derivative contracts	\$ 1,798	\$ 619
Deferred receivables consideration	272	446
Customer omnibus receivable	888	1,014
Financing receivables - net ⁽¹⁾	331	395
Insurance premiums receivable	25	41
Prepaid expenses	308	318
Biodiesel tax credit	89	541
Tax receivables	665	579
Non-trade receivables ⁽²⁾	296	369
Other current assets	284	278
	<u>\$ 4,956</u>	<u>\$ 4,600</u>

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 7. Other Current Assets (Continued)

⁽¹⁾ The Company provides financing to certain suppliers, primarily Brazilian farmers, to finance a portion of the suppliers' production costs. The amounts are reported net of allowances of \$4 million and \$3 million at September 30, 2020 and December 31, 2019, respectively. Interest earned on financing receivables of \$4 million and \$15 million for the three and nine months ended September 30, 2020, respectively, and \$5 million and \$19 million for the three and nine months ended September 30, 2019, respectively, is included in interest income in the consolidated statements of earnings.

⁽²⁾ Non-trade receivables included \$77 million and \$81 million of reinsurance recoverables as of September 30, 2020 and December 31, 2019, respectively.

Note 8. Accrued Expenses and Other Payables

The following table sets forth the items in accrued expenses and other payables:

	September 30, 2020	December 31, 2019
	(In millions)	
Unrealized losses on derivative contracts	\$ 1,969	\$ 742
Accrued compensation	349	300
Income tax payable	61	72
Other taxes payable	120	120
Biodiesel tax credit payable	17	332
Insurance claims payable	277	284
Contract liability	344	604
Current maturities - operating leases	251	215
Other accruals and payables	892	1,088
	\$ 4,280	\$ 3,757

Note 9. Debt and Financing Arrangements

On March 27, 2020, the Company issued \$0.5 billion and \$1.0 billion aggregate principal amounts of 2.75% Notes due in 2025 and 3.25% Notes due in 2030, respectively. Net proceeds before expenses for the 2.75% and 3.25% Notes were \$492 million and \$988 million, respectively.

During the second half of 2020, the global credit market stabilized with corporate credit spreads below pre-pandemic levels. Continued actions by central banks provided additional support in both the short-term and long-term funding markets further stabilizing corporate credit markets. Low benchmark yields and favorable credit spreads coupled with continued strong cash flow generation during the second half of the year presented opportunities for ADM to re-balance the company's liability portfolio to pre-pandemic levels. Starting in June 2020, ADM began a series of liability management transactions including multiple early debt redemptions and the \$0.7 billion debt tender in September 2020 to capitalize on all-time low interest rates:

In June 2020, the Company redeemed \$495 million aggregate principal amount of 4.479% debentures due in 2021 and recognized a debt extinguishment charge of \$14 million in the nine months ended September 30, 2020.

In September 2020, the Company redeemed \$400 million aggregate principal amount of 3.375% notes due in 2022 and recognized a debt extinguishment charge of \$19 million in the quarter ended September 30, 2020.

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 9. Debt and Financing Arrangements (Continued)

In September 2020, the Company repurchased \$665 million aggregate principal amount of certain of its outstanding notes and debentures (the “Debentures”) validly tendered and not withdrawn. Pursuant to the terms of its cash tender offers, the Company paid aggregate total consideration of \$933 million for the Debentures accepted for repurchase. The cash tender offers were partially financed by the proceeds of the exchangeable bonds issued by the Company’s wholly-owned subsidiary, ADM Ag Holding Limited (“ADM Ag”), on August 26, 2020 as discussed below. The Company recognized a debt extinguishment charge of \$374 million in the quarter ended September 30, 2020 which consisted of make-whole premiums and the write-off of debt issuance costs.

In September 2020, the Company’s wholly-owned subsidiary, ADM Germany GmbH, redeemed \$100 million aggregate principal amount of private placement notes due in 2021 and 2024 and recognized a debt extinguishment charge of \$3 million in the quarter ended September 30, 2020.

On August 26, 2020, ADM Ag issued \$300 million aggregate principal amount of zero coupon exchangeable bonds (the “Bonds”) due in 2023 to non-U.S. persons outside of the U.S. Subject to and upon compliance with the terms and conditions of the Bonds and any conditions, procedures, and certifications prescribed thereunder, the Bonds will be exchangeable for ordinary shares of Wilmar International Limited (“Wilmar”) currently held by the Company’s consolidated subsidiaries. Effective October 6, 2020, holders of the Bonds will be entitled to receive 50,597.0453 Wilmar shares (the “Exchange Property per Bond”) for each \$200,000 principal amount of the Bonds, on the exercise of their exchange rights, subject to dividend adjustments. Effective February 26, 2022, ADM Ag has the option to call the outstanding Bonds at their principal amount if the value of the Exchange Property per Bond exceeds 120% of the principal amount for 20 consecutive trading days. The Company accounts for the Bond’s exchange feature as an equity-linked embedded derivative that is not clearly and closely related to the host debt instrument since it is indexed to Wilmar’s stock. As such, it does not qualify for the scope exception in ASC Topic 815, *Derivatives and Hedging* and is bifurcated and measured at fair value with changes in fair value recognized as interest expense. The fair value of the embedded derivative included in long-term debt as of September 30, 2020 was \$32 million, valued with the assistance of a third-party pricing service (a level 3 measurement under applicable accounting standards). The Company unconditionally and irrevocably guarantees the payment of all sums payable and the performance of all of ADM Ag’s other obligations under the Bonds. In contemplation of the issuance of the Bonds, the Company’s wholly-owned subsidiary, Archer Daniels Midland Asia-Pacific Limited, that holds shares in Wilmar, entered into a stock borrowing and lending agreement with Goldman Sachs International.

At September 30, 2020, the fair value of the Company’s long-term debt exceeded the carrying value by \$2.2 billion, as estimated using quoted market prices (a Level 2 measurement under applicable accounting standards).

At September 30, 2020, the Company had lines of credit, including the accounts receivable securitization programs described below, totaling \$10.7 billion, of which \$9.1 billion was unused. Of the Company’s total lines of credit, \$5.0 billion supported the combined U.S. and European commercial paper borrowing programs, against which there was no commercial paper outstanding at September 30, 2020.

The Company has accounts receivable securitization programs (the “Programs”). The Programs provide the Company with up to \$1.8 billion in funding resulting from the sale of accounts receivable, of which \$0.4 billion was unused as of September 30, 2020 (see Note 16 for more information about the Programs).

Note 10. Income Taxes

The Company’s effective tax rates were a benefit of 13.0% and an expense of 3.4% for the three and nine months ended September 30, 2020, respectively, compared to an expense of 18.9% and 19.4% for the three and nine months ended September 30, 2019, respectively. The change in rates for the three and nine months was due to a shift in the geographical mix of forecasted pretax earnings and significant transactions that occurred during the quarter, including the early debt retirement and the tax-free sale of a portion of the Company’s shares in Wilmar, which resulted in a significant decrease in the previously forecasted 2020 effective tax rate. The change in rates was also due to the impact of U.S. tax credits signed into law in December 2019, including a \$73 million discrete tax benefit related to 45G railroad tax credits recognized in the quarter ended March 31, 2020. The 45G railroad tax credits have an offsetting expense in cost of products sold.

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 10. Income Taxes (Continued)

In March 2020, the Coronavirus Aid Relief and Economic Security Act (CARES Act) was signed into law in the United States. The Company continues to assess the effects of the provisions of the CARES Act and does not expect any income tax effects to have a material impact on the annual effective tax rate for the year ending December 31, 2020. The Company also continues to evaluate the effects of COVID-19 on its ability to indefinitely reinvest foreign earnings and does not expect any change in its assertion to have a material impact on the annual effective tax rate for the year ending December 31, 2020.

The Company is subject to income taxation and routine examinations in many jurisdictions around the world and frequently faces challenges regarding the amount of taxes due. These challenges include positions taken by the Company related to the timing, nature and amount of deductions and the allocation of income among various tax jurisdictions. In its routine evaluations of the exposure associated with various tax filing positions, the Company recognizes a liability, when necessary, for estimated potential tax owed by the Company in accordance with applicable accounting standards. Resolution of the related tax positions, through negotiations with relevant tax authorities or through litigation, may take years to complete. Therefore, it is difficult to predict the timing for resolution of tax positions and the Company cannot predict or provide assurance as to the ultimate outcome of these ongoing or future examinations. However, the Company does not anticipate that the total amount of unrecognized tax benefits will increase or decrease significantly in the next twelve months. Given the long periods of time involved in resolving tax positions, the Company does not expect that the recognition of unrecognized tax benefits will have a material impact on the Company's effective income tax rate in any given period.

The Company's subsidiary in Argentina, ADM Agro SRL (formerly ADM Argentina SA and Alfred C. Toepfer Argentina SRL), received tax assessments challenging transfer prices used to price grain exports for the tax years 1999 through 2011. As of September 30, 2020, these assessments totaled \$11 million in tax and \$44 million in interest (adjusted for variation in currency exchange rates). The Argentine tax authorities conducted a review of income and other taxes paid by large exporters and processors of cereals and other agricultural commodities resulting in allegations of income tax evasion. The Company believes that it has complied with all Argentine tax laws. To date, the Company has not received assessments for closed years subsequent to 2011. While the statute of limitations has expired for tax years 2012 and 2013, the Company cannot rule out receiving additional assessments challenging transfer prices used to price grain exports for years subsequent to 2013, and estimates that these potential assessments could be approximately \$34 million in tax and \$25 million in interest (adjusted for variation in currency exchange rates as of September 30, 2020). The Company believes that it has appropriately evaluated the transactions underlying these assessments, and has concluded, based on Argentine tax law, that its tax position would be sustained, and accordingly, has not recorded a tax liability for these assessments. In accordance with the accounting requirements for uncertain tax positions, the Company has not recorded an uncertain tax liability for this assessment because it has concluded that it is more likely than not to prevail on the matter based upon its technical merits and because the taxing jurisdiction's process does not provide a mechanism for settling at less than the full amount of the assessment. The Company intends to vigorously defend its position against the current assessments and any similar assessments that may be issued for years subsequent to 2013.

In 2014, the Company's wholly-owned subsidiary in the Netherlands, ADM Europe B.V., received a tax assessment from the Netherlands tax authority challenging the transfer pricing aspects of a 2009 business reorganization, which involved two of its subsidiary companies in the Netherlands. As of September 30, 2020, this assessment was \$95 million in tax and \$38 million in interest (adjusted for variation in currency exchange rates). In September 2019, the Company received an interim decision on its appeal which directed the parties to work toward a settlement. On April 23, 2020, the court issued an unfavorable ruling and in October 2020, assigned a third party expert to establish a valuation by early 2021. Subsequent appeals may take an extended period of time and could result in additional financial impacts of up to the entire amount of the assessment. The Company has carefully evaluated the underlying transactions and has concluded that the amount of gain recognized on the reorganization for tax purposes was appropriate. As of September 30, 2020, the Company has accrued its best estimate of what it believes will be the likely outcome of the litigation and will vigorously defend its position against the assessment.

During the quarter ended June 30, 2020, the ongoing litigation between the Company's wholly-owned subsidiary, ADM do Brasil Ltda. and the Brazilian Federal Revenue Service was favorably resolved without any tax due. The litigation related to assessments received with respect to the tax deductibility of commodity hedging losses and related expenses. The Company does not expect to receive any additional tax assessments with respect to this issue.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 11. Leases

Lessee Accounting

The Company leases certain transportation equipment, plant equipment, office equipment, land, buildings, and storage facilities. Most leases include options to renew, with renewal terms that can extend the lease term from 10 months to 49 years. Certain leases also include index and non-index escalation clauses and options to purchase the leased property. Leases accounted for as finance leases were immaterial at September 30, 2020.

As an accounting policy election, the Company does not apply the recognition requirements of Topic 842 to short-term leases in all of its underlying asset categories. The Company recognizes short-term lease payments in earnings on a straight-line basis over the lease term, and variable lease payments in the period in which the obligation for those payments is incurred.

The following table sets forth the amounts relating to the Company's total lease cost and other information.

	Three Months Ended		Nine Months Ended	
	Sep 30, 2020	Sep 30, 2019	Sep 30, 2020	Sep 30, 2019
	(In millions)			
Lease cost:				
Operating lease cost	\$ 84	\$ 51	\$ 231	\$ 197
Short-term lease cost	19	24	73	71
Total lease cost	\$ 103	\$ 75	\$ 304	\$ 268
Other information:				
Operating lease liability principal payments			\$ 222	\$ 149
Right-of-use assets obtained in exchange for new operating lease liabilities			\$ 244	\$ 192
			Sep 30, 2020	Dec 31, 2019
Weighted-average remaining lease term - operating leases (in years)			7	7
Weighted average discount rate - operating leases			4.3%	4.6%

Below is a tabular disclosure of the future annual undiscounted cash flows for operating lease liabilities.

	Undiscounted	
	Cash Flows	
	(In millions)	
Remainder of 2020	\$	76
2021		284
2022		252
2023		204
2024		144
2025		83
Thereafter		250
Total		1,293
Less interest ⁽¹⁾		(180)
Lease liability	\$	1,113

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
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Note 11. Leases (Continued)

⁽¹⁾ Calculated using the implicit rate of the lease, if available, or the incremental borrowing rate that is appropriate for the tenor and geography of the lease.

As of September 30, 2020 and December 31, 2019, the Company had right-of-use assets included in Other assets of \$1.1 billion and \$1.0 billion, respectively, current lease liabilities included in Accrued expenses and other payables of \$251 million and \$215 million, respectively, and non-current lease liabilities included in Other long-term liabilities of \$862 million and \$781 million, respectively, in its consolidated balance sheets.

Note 12. Accumulated Other Comprehensive Income

The following tables set forth the changes in AOCI by component for the three and nine months ended September 30, 2020 and the reclassifications out of AOCI for the three and nine months ended September 30, 2020 and 2019:

Three months ended September 30, 2020					
	Foreign Currency Translation Adjustment	Deferred Gain (Loss) on Hedging Activities	Pension Liability Adjustment	Unrealized Gain (Loss) on Investments	Total
	(In millions)				
Balance at June 30, 2020	\$ (2,445)	\$ (14)	\$ (275)	\$ 29	\$ (2,705)
Other comprehensive income (loss) before reclassifications	(155)	178	(5)	(28)	(10)
Amounts reclassified from AOCI	—	(66)	—	—	(66)
Tax effect	51	(22)	3	—	32
Net of tax amount	(104)	90	(2)	(28)	(44)
Balance at September 30, 2020	<u>\$ (2,549)</u>	<u>\$ 76</u>	<u>\$ (277)</u>	<u>\$ 1</u>	<u>\$ (2,749)</u>

Nine months ended September 30, 2020					
	Foreign Currency Translation Adjustment	Deferred Gain (Loss) on Hedging Activities	Pension Liability Adjustment	Unrealized Gain (Loss) on Investments	Total
	(In millions)				
Balance at December 31, 2019	\$ (2,152)	\$ (12)	\$ (268)	\$ 27	\$ (2,405)
Other comprehensive income (loss) before reclassifications	(434)	76	(5)	(25)	(388)
Amounts reclassified from AOCI	—	35	5	—	40
Tax effect	37	(23)	(9)	(1)	4
Net of tax amount	(397)	88	(9)	(26)	(344)
Balance at September 30, 2020	<u>\$ (2,549)</u>	<u>\$ 76</u>	<u>\$ (277)</u>	<u>\$ 1</u>	<u>\$ (2,749)</u>

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 12. Accumulated Other Comprehensive Income (Continued)

Details about AOCI components	Amount reclassified from AOCI				Affected line item in the consolidated statements of earnings
	Three months ended September 30,		Nine months ended September 30,		
	2020	2019	2020	2019	
(In millions)					
<u>Foreign currency translation adjustment</u>					
	\$	—	\$	—	(1) Other (income) expense-net
		—		—	Tax
	<u>\$</u>	<u>—</u>	<u>\$</u>	<u>—</u>	<u>(1)</u> Net of tax
<u>Deferred loss (gain) on hedging activities</u>					
	\$	(1)	\$	(3)	5 Revenues
		(79)		(1)	(7) Cost of products sold
		14		21	29 Other (income) expense-net
		—		—	8 Interest expense
		<u>(66)</u>		<u>17</u>	<u>35</u> 27 Total before tax
		19		4	5 — Tax
	<u>\$</u>	<u>(47)</u>	<u>\$</u>	<u>21</u>	<u>40</u> 27 Net of tax
<u>Pension liability adjustment</u>					
Amortization of defined benefit pension items:					
Prior service credit	\$	(9)	\$	—	(25) (13) Other (income) expense-net
Actuarial losses		9		3	30 10 Other (income) expense-net
		—		3	5 (3) Total before tax
		1		1	(10) 16 Tax
	<u>\$</u>	<u>1</u>	<u>\$</u>	<u>4</u>	<u>(5)</u> 13 Net of tax

The Company's accounting policy is to release the income tax effects from AOCI when the individual units of account are sold, terminated, or extinguished.

Note 13. Other (Income) Expense - Net

The following table sets forth the items in other (income) expense:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(In millions)				
Gains on sales of assets	\$ (68)	\$ (7)	\$ (132)	\$ (37)
Early debt retirement charges	396	—	410	—
Other – net	(50)	(11)	(99)	(2)
Other (Income) Expense - Net	<u>\$ 278</u>	<u>\$ (18)</u>	<u>\$ 179</u>	<u>\$ (39)</u>

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 13. Other (Income) Expense - Net (Continued)

Gains on sales of assets in the three months ended September 30, 2020 included gains related to the sale of a portion of the Company's shares in Wilmar, which decreased the Company's ownership interest from 24.8% as of December 31, 2019 to 22.1% as of September 30, 2020, and net gains on the sale of certain other assets, and disposals of individually insignificant assets in the ordinary course of business. Gains on sales of assets in the nine months ended September 30, 2020 included gains on the sale of a portion of the Company's shares in Wilmar shares, an investment revaluation gain, net gains on the sale of certain assets, and disposals of individually insignificant assets in the ordinary course of business. Gains on sales of assets in the three months ended September 30, 2019 included gains on disposals of individually insignificant assets in the ordinary course of business. Gains on sales of assets in the nine months ended September 30, 2019 included gains on the sale of certain assets, step-up gains on equity investments, and gains on disposals of individually insignificant assets in the ordinary course of business.

Early debt retirement charges in the three and nine months ended September 30, 2020 related to multiple early debt redemptions and the \$0.7 billion debt tender in September 2020 (see Note 9 for more information).

Other - net in the three and nine months ended September 30, 2020 included the non-service components of net pension benefit income of \$7 million and \$28 million, respectively, and other income. Other - net in the nine months ended September 30, 2020 also included loss provisions related to the Company's futures commission and brokerage business and foreign exchange gains. Other - net in the three and nine months ended September 30, 2019 included the non-service components of net pension benefit income of \$2 million and \$10 million, respectively, and other income, partially offset by foreign exchange losses.

Note 14. Segment Information

As discussed in Note 1, prior period results have been reclassified to conform to the current period segment presentation.

The Company's operations are organized, managed, and classified into three reportable business segments: Ag Services and Oilseeds, Carbohydrate Solutions, and Nutrition. Each of these segments is organized based upon the nature of products and services offered. The Company's remaining operations are not reportable segments, as defined by the applicable accounting standard, and are classified as Other Business.

The Ag Services and Oilseeds segment includes global activities related to the origination, merchandising, transportation, and storage of agricultural raw materials, and the crushing and further processing of oilseeds such as soybeans and soft seeds (cottonseed, sunflower seed, canola, rapeseed, and flaxseed) into vegetable oils and protein meals. Oilseeds products produced and marketed by the segment include ingredients for food, feed, energy, and industrial customers. Crude vegetable oils produced by the segment's crushing activities are sold "as is" or are further processed by refining, blending, bleaching, and deodorizing into salad oils. Salad oils are sold "as is" or are further processed by hydrogenating and/or interesterifying into margarine, shortening, and other food products. Partially refined oils are used to produce biodiesel and glycols or are sold to other manufacturers for use in chemicals, paints, and other industrial products. Oilseed protein meals are principally sold to third parties to be used as ingredients in commercial livestock and poultry feeds. The Ag Services and Oilseeds segment is also a major supplier of peanuts, tree nuts, and peanut-derived ingredients to both the U.S. and export markets. In North America, cotton cellulose pulp is manufactured and sold to the chemical, paper, and other industrial markets. The Ag Services and Oilseeds segment's grain sourcing, handling, and transportation network (including barge, ocean-going vessel, truck, rail, and container freight services) provides reliable and efficient services to the Company's customers and agricultural processing operations. The Ag Services and Oilseeds segment also includes agricultural commodity and feed product import, export, and global distribution, and structured trade finance activities. This segment also includes the Company's share of the results of its equity investment in Wilmar and its share of the results of its Pacifcor, Stratas Foods LLC, Edible Oils Limited, Olenex Sarl, and SoyVen joint ventures. In August 2020, the Company sold a portion of its shares in Wilmar, decreasing its ownership interest from 24.8% as of December 31, 2019 to 22.1% as of September 30, 2020.

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 14. Segment Information (Continued)

The Carbohydrate Solutions segment is engaged in corn and wheat wet and dry milling and other activities. The Carbohydrate Solutions segment converts corn and wheat into products and ingredients used in the food and beverage industry including sweeteners, corn and wheat starches, syrup, glucose, wheat flour, and dextrose. Dextrose and starch are used by the Carbohydrate Solutions segment as feedstocks for its bioproducts operations. By fermentation of dextrose, the Carbohydrate Solutions segment produces alcohol and other food and animal feed ingredients. Ethyl alcohol is produced by the Company for industrial use as ethanol or as beverage grade. Ethanol, in gasoline, increases octane and is used as an extender and oxygenate. Corn gluten feed and meal, as well as distillers' grains, are produced for use as animal feed ingredients. Corn germ, a by-product of the wet milling process, is further processed into vegetable oil and protein meal. Other Carbohydrate Solutions products include citric acids which are used in various food and industrial products. This segment also includes the Company's share of the results of its equity investments in Hungrana Ltd., Almidones Mexicanos S.A., Red Star Yeast Company, LLC, and Aston Foods and Food Ingredients.

The Nutrition segment serves customer needs for food, beverages, health and wellness, and more. The segment engages in the manufacturing, sale, and distribution of a wide array of products from nature including plant-based proteins, natural flavor ingredients, flavor systems, natural colors, emulsifiers, soluble fiber, polyols, hydrocolloids, natural health and nutrition products including probiotics, prebiotics, enzymes, and botanical extracts, and other specialty food and feed ingredients. The Nutrition segment includes the activities related to the procurement, processing, and distribution of edible beans. The Nutrition segment also includes activities related to the processing and distribution of formula feeds and animal health and nutrition products and the manufacture of contract and private label pet treats and foods. In January 2020, ADM acquired Yerbalatina, a natural plant-based extracts and ingredients manufacturer.

Other Business includes the Company's financial business units related to futures commission and insurance activities.

Intersegment sales have been recorded at amounts approximating market. Operating profit for each segment is based on net sales less identifiable operating expenses. Also included in operating profit for each segment is equity in earnings of affiliates based on the equity method of accounting. Specified items included in total segment operating profit and certain corporate items are not allocated to the Company's individual business segments because operating performance of each business segment is evaluated by management exclusive of these items. Corporate results principally include the impact of LIFO-related adjustments, unallocated corporate expenses, interest cost net of investment income, the equity results of early-stage start-up companies that ADM Ventures has investments in, and the Company's share of the results of its equity investment in Compagnie Industrielle et Financiere des Produits Amylaces SA (Luxembourg) (CIP), which was sold in December 2019.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 14. Segment Information (Continued)

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Gross revenues				
Ag Services and Oilseeds	\$ 13,415	\$ 14,440	\$ 40,196	\$ 41,041
Carbohydrate Solutions	2,335	3,018	7,102	8,472
Nutrition	1,481	1,481	4,471	4,322
Other Business	84	88	277	273
Intersegment elimination	(2,189)	(2,301)	(5,669)	(5,781)
Total gross revenues	<u>\$ 15,126</u>	<u>\$ 16,726</u>	<u>\$ 46,377</u>	<u>\$ 48,327</u>
Intersegment sales				
Ag Services and Oilseeds	\$ 1,888	\$ 1,824	\$ 4,849	\$ 4,659
Carbohydrate Solutions	271	453	708	1,063
Nutrition	30	24	112	59
Total intersegment sales	<u>\$ 2,189</u>	<u>\$ 2,301</u>	<u>\$ 5,669</u>	<u>\$ 5,781</u>
Revenues from external customers				
Ag Services and Oilseeds				
Ag Services	\$ 7,352	\$ 8,246	\$ 22,930	\$ 23,653
Crushing	2,317	2,465	7,035	7,130
Refined Products and Other	1,858	1,905	5,382	5,599
Total Ag Services and Oilseeds	<u>11,527</u>	<u>12,616</u>	<u>35,347</u>	<u>36,382</u>
Carbohydrate Solutions				
Starches and Sweeteners	1,574	1,526	4,769	4,782
Vantage Corn Processors	490	1,039	1,625	2,627
Total Carbohydrate Solutions	<u>2,064</u>	<u>2,565</u>	<u>6,394</u>	<u>7,409</u>
Nutrition				
Human Nutrition	719	703	2,161	2,105
Animal Nutrition	732	754	2,198	2,158
Total Nutrition	<u>1,451</u>	<u>1,457</u>	<u>4,359</u>	<u>4,263</u>
Other Business	84	88	277	273
Total revenues from external customers	<u>\$ 15,126</u>	<u>\$ 16,726</u>	<u>\$ 46,377</u>	<u>\$ 48,327</u>

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 14. Segment Information (Continued)

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Segment operating profit				
Ag Services and Oilseeds	\$ 436	\$ 417	\$ 1,271	\$ 1,196
Carbohydrate Solutions	246	182	509	470
Nutrition	147	118	447	316
Other Business	20	47	69	72
Specified Items:				
Gains (losses) on sales of assets and businesses ⁽¹⁾	57	—	80	12
Impairment, restructuring, and settlement charges ⁽²⁾	(2)	(6)	(60)	(52)
Total segment operating profit	904	758	2,316	2,014
Corporate	(704)	(255)	(1,189)	(922)
Earnings before income taxes	\$ 200	\$ 503	\$ 1,127	\$ 1,092

⁽¹⁾ Current quarter and year-to-date gain consisted of a gain on the sale of a portion of the Company's shares in Wilmar and certain other assets. Prior year-to-date gains consisted of a gain on the sale of certain assets and a step-up gain on an equity investment.

⁽²⁾ Current quarter and year-to-date charges related to the impairment of certain long-lived assets, restructuring, and a settlement. Prior quarter and year-to-date charges related to the impairment of certain long-lived assets and a settlement.

Note 15. Asset Impairment, Exit, and Restructuring Costs

Asset impairment, exit, and restructuring costs in the three months ended September 30, 2020 consisted of individually insignificant long-lived asset impairments of \$3 million and restructuring charges of \$1 million. Asset impairment, exit, and restructuring costs in the nine months ended September 30, 2020 consisted primarily of \$50 million of impairments related to certain intangible and other long-lived assets and \$11 million of restructuring charges.

Asset impairment, exit, and restructuring costs in the three and nine months ended September 30, 2019 consisted of \$6 million and \$50 million, respectively, of impairments related to certain long-lived assets presented as specified items within segment operating profit and \$47 million and \$150 million, respectively, of restructuring and pension settlement and rereasurement charges in Corporate primarily related to early retirement and reorganization initiatives.

The Company recorded a \$35 million impairment related to a Company facility in the nine months ended September 30, 2019, based on the fair value of the asset determined using a third-party market participant's offer to purchase the facility.

In April 2020, the Company temporarily idled ethanol production at its corn dry mill facilities in Cedar Rapids, Iowa, and Columbus, Nebraska. During the quarter ended September 30, 2020, the Company performed an impairment assessment on its corn processing business, which includes all assets where ethanol is produced, and determined that no impairment was required based on the Company's forecast of undiscounted cash flows. The Company currently expects that the idled facilities will be restarted as demand for ethanol improves within the next 12 months.

Note 16. Sale of Accounts Receivable

The Company has an accounts receivable securitization program (the "First Program") with certain commercial paper conduit purchasers and committed purchasers (collectively, the "First Purchasers"). Under the First Program, certain U.S.-originated trade accounts receivable are sold to a wholly-owned bankruptcy-remote entity, ADM Receivables, LLC ("ADM Receivables"). ADM Receivables in turn transfers such purchased accounts receivable in their entirety to the First Purchasers pursuant to a receivables purchase agreement. In exchange for the transfer of the accounts receivable, ADM Receivables receives a cash payment of up to \$1.2 billion and an additional amount upon the collection of the accounts receivable (deferred consideration). The First Program terminates on May 18, 2021, unless extended.

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 16. Sale of Accounts Receivable (Continued)

The Company also has an accounts receivable securitization program (the “Second Program”) with certain commercial paper conduit purchasers and committed purchasers (collectively, the “Second Purchasers”). Under the Second Program, certain non-U.S.-originated trade accounts receivable are sold to a wholly-owned bankruptcy-remote entity, ADM Ireland Receivables Company (ADM Ireland Receivables). Prior to April 1, 2020, ADM Ireland Receivables transferred such purchased accounts receivable in their entirety to the Second Purchasers pursuant to a receivables purchase agreement. In exchange for the transfer of the accounts receivable, ADM Ireland Receivables received a cash payment up to a certain amount and an additional amount upon the collection of the accounts receivable (deferred consideration). On April 1, 2020, the Company restructured the Second Program from a deferred purchase price to a pledge structure. Under the new structure, ADM Ireland Receivables transfers a portion of the purchased accounts receivable together with an equally proportional security interest in all of its right, title, and interest in the remaining purchased accounts receivable to each of the Second Purchasers. In exchange, ADM Ireland Receivables receives a cash payment of up to \$0.6 billion (€0.5 billion) for the accounts receivables transferred. The Second Program terminates on March 12, 2021, unless extended.

Under the First and Second Programs (collectively, the “Programs”), ADM Receivables and ADM Ireland Receivables use the cash proceeds from the transfer of receivables to the First Purchasers and Second Purchasers (collectively, the “Purchasers”) and other consideration, as applicable, to finance the purchase of receivables from the Company and the ADM subsidiaries originating the receivables. The Company accounts for these transfers as sales. The Company has no retained interests in the transferred receivables, other than collection and administrative responsibilities and its right to the deferred consideration under the First Program. At September 30, 2020 and December 31, 2019, the Company did not record a servicing asset or liability related to its retained responsibility, based on its assessment of the servicing fee, market values for similar transactions, and its cost of servicing the receivables sold.

As of September 30, 2020 and December 31, 2019, the fair value of trade receivables transferred to the Purchasers under the Programs and derecognized from the Company’s consolidated balance sheets was \$1.7 billion and \$1.9 billion, respectively. In exchange for the transfers as of September 30, 2020 and December 31, 2019, the Company received cash of \$1.4 billion and \$1.4 billion, respectively, and recorded a receivable for deferred consideration included in other current assets of \$0.3 billion and \$0.4 billion, respectively. Cash collections from customers on receivables sold were \$24.2 billion and \$25.1 billion for the nine months ended September 30, 2020 and 2019, respectively. Of this amount, \$6.7 billion and \$9.5 billion were cash collections on the deferred receivables consideration reflected as cash inflows from investing activities for the nine months ended September 30, 2020 and 2019, respectively. Deferred receivables consideration is paid to the Company in cash on behalf of the First Purchasers as receivables are collected; however, as this is a revolving facility, cash collected from the Company’s customers is reinvested by the First Purchasers daily in new receivable purchases under the First Program.

The Company’s risk of loss following the transfer of accounts receivable under the First Program is limited to the deferred receivables consideration outstanding. The Company carries the deferred receivables consideration at fair value determined by calculating the expected amount of cash to be received and is principally based on observable inputs (a Level 2 measurement under the applicable accounting standards) consisting mainly of the face amount of the receivables adjusted for anticipated credit losses and discounted at the appropriate market rate. Payment of deferred receivables consideration is not subject to significant risks other than delinquencies and credit losses on accounts receivable transferred under the First Program which have historically been insignificant.

Transfers of receivables under the Programs resulted in an expense for the loss on sale of \$2 million and \$5 million for the three months ended September 30, 2020 and 2019, respectively, and \$7 million and \$14 million for the nine months ended September 30, 2020 and 2019, respectively, which is classified as selling, general, and administrative expenses in the consolidated statements of earnings.

In accordance with the amended guidance of Topic 230, the Company reflects cash flows related to the deferred receivables consideration as investing activities in its consolidated statements of cash flows. All other cash flows are classified as operating activities because the cash received from the Purchasers upon both the sale and collection of the receivables is not subject to significant interest rate risk given the short-term nature of the Company’s trade receivables.

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 16. Sale of Accounts Receivable (Continued)

On October 1, 2020, the Company restructured the First Program from a deferred purchase price to a pledge structure. Under the new structure, ADM Receivables transfers a portion of the purchased accounts receivable together with an equally proportional security interest in all of its right, title, and interest in the remaining purchased accounts receivable to each of the First Purchasers. In exchange, ADM Receivables receives a cash payment for the accounts receivables transferred.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Company Overview

This MD&A should be read in conjunction with the accompanying unaudited consolidated financial statements.

ADM is a global leader in human and animal nutrition and one of the world's premier agricultural origination and processing companies. It is one of the world's leading producers of ingredients for human and animal nutrition, and other products made from nature. The Company uses its significant global asset base to originate and transport agricultural commodities, connecting to markets in more than 190 countries. The Company also processes corn, oilseeds, and wheat into products for food, animal feed, chemical and energy uses. The Company also engages in the manufacturing, sale, and distribution of specialty products including natural flavor ingredients, flavor systems, natural colors, proteins, emulsifiers, soluble fiber, polyols, hydrocolloids, natural health and nutrition products, and other specialty food and feed ingredients. The Company uses its global asset network, business acumen, and its relationships with suppliers and customers to efficiently connect the harvest to the home thereby generating returns for our shareholders, principally from margins earned on these activities.

Effective January 1, 2020, the Company started reporting its newly created dry mill ethanol subsidiary, Vantage Corn Processors (VCP), as a sub-segment within the Carbohydrate Solutions segment. VCP replaces the Bioproducts sub-segment which included the combined results of the Company's corn dry and wet mill ethanol operations. The wet mill ethanol operations that were previously reported in Bioproducts are now included in the Starches and Sweeteners sub-segment. In addition to dry mill ethanol production, VCP sells/brokers ADM's wet mill ethanol production as the sole marketer of ethanol produced at the Company's facilities. The change does not have an impact on the total results of the Carbohydrate Solutions segment. The Company's review of its strategic options related to VCP is ongoing.

Prior period results have been reclassified to conform to the current period segment presentation.

The Company's operations are organized, managed, and classified into three reportable business segments: Ag Services and Oilseeds, Carbohydrate Solutions, and Nutrition. Each of these segments is organized based upon the nature of products and services offered. The Company's remaining operations are not reportable business segments, as defined by the applicable accounting standard, and are classified as Other Business. Financial information with respect to the Company's reportable business segments is set forth in Note 14 of "Notes to Consolidated Financial Statements" included in Item 1 herein, "Financial Statements".

The Company's recent significant portfolio actions and announcements include:

- the acquisition in January 2020 of Yerbalatina, a natural plant-based extracts and ingredients manufacturer in Brazil;
- the temporary idling in April 2020 of ethanol production at the corn dry mill facilities in Cedar Rapids, Iowa, and Columbus, Nebraska due to reduced demand. To better align production with current demand, the Company has also reduced the ethanol grind at its corn wet mill plants and rebalanced grind to produce more industrial alcohol for the sanitizer market and industrial starches for the container board market;
- the sale in August 2020 of a portion of the Company's shares in Wilmar and the issuance of \$300 million aggregate principal amount of zero-coupon bonds, exchangeable into Wilmar shares;
- the repurchase and redemption in September 2020 of \$1.2 billion aggregate principal amount of debentures and notes;
- the announcement in October 2020 of an agreement with Spiber Inc. (Spiber) to expand the production of Spiber's innovative Brewed Protein™ polymers for use in apparel and other consumer products;
- the announcement in October 2020 of the Company's plan to construct a new, state-of-the-art facility in Valencia, Spain, that will expand its capabilities to meet growing demand for microbiome solutions; and

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

- the announcement in October 2020 of the launch of PlantPlus Foods, a 30% joint venture with Marfrig, one of the world's leading beef producers and the world's largest beef patty producer, that will offer a wide range of finished plant-based food products across North and South America

The Company executes its strategic vision through three pillars: Optimize the Core, Drive Efficiencies, and Expand Strategically, all supported by its Readiness effort. The Company launched Readiness to drive new efficiencies and improve the customer experience in the Company's existing businesses through a combination of data analytics, process simplification and standardization, and behavioral and cultural change, building upon its earlier IADM and operational excellence programs.

Operating Performance Indicators

The Company is exposed to certain risks inherent to an agricultural-based commodity business. These risks are further described in Item 1A, "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

The Company's Ag Services and Oilseeds operations are principally agricultural commodity-based businesses where changes in selling prices move in relationship to changes in prices of the commodity-based agricultural raw materials. As a result, changes in agricultural commodity prices have relatively equal impacts on both revenues and cost of products sold. Therefore, changes in revenues of these businesses do not necessarily correspond to the changes in margins or gross profit. Thus, gross margins per volume or metric ton are more meaningful than gross margins as percentage of revenues.

The Company's Carbohydrate Solutions operations and Nutrition businesses also utilize agricultural commodities (or products derived from agricultural commodities) as raw materials. However, in these operations, agricultural commodity market price changes do not necessarily correlate to changes in cost of products sold. Therefore, changes in revenues of these businesses may correspond to changes in margins or gross profit. Thus, gross margin rates are more meaningful as a performance indicator in these businesses.

The Company has consolidated subsidiaries in more than 70 countries. For the majority of the Company's subsidiaries located outside the United States, the local currency is the functional currency except certain significant subsidiaries in Switzerland where Euro is the functional currency, and Brazil and Argentina where U.S. dollar is the functional currency. Revenues and expenses denominated in foreign currencies are translated into U.S. dollars at the weighted average exchange rates for the applicable periods. For the majority of the Company's business activities in Brazil and Argentina, the functional currency is the U.S. dollar; however, certain transactions, including taxes, occur in local currency and require remeasurement to the functional currency. Changes in revenues are expected to be correlated to changes in expenses reported by the Company caused by fluctuations in the exchange rates of foreign currencies, primarily the Euro, British pound, Canadian dollar, and Brazilian real, as compared to the U.S. dollar.

The Company measures its performance using key financial metrics including net earnings, gross margins, segment operating profit, return on invested capital, EBITDA, economic value added, manufacturing expenses, and selling, general, and administrative expenses. The Company's financial results can vary significantly due to changes in factors such as fluctuations in energy prices, weather conditions, crop plantings, government programs and policies, trade policies, changes in global demand, general global economic conditions, changes in standards of living, and global production of similar and competitive crops. Due to these unpredictable factors, the Company undertakes no responsibility for updating any forward-looking information contained within "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Market Factors Influencing Operations or Results in the Three Months Ended September 30, 2020

The Company is subject to a variety of market factors which affect the Company's operating results. North American grain and oilseeds export demand was strong with good buying from China and the rest of the world. Global crushing margins and margins for oil and biodiesel in South America strengthened due to the increasingly tight soybean supplies in South America. Margins for starches and sweeteners and wheat flour remained solid while demand was soft due to the impacts of COVID-19 in the food service sector. ADM and many ethanol producers have idled some capacity due to low current demand. Ethanol margins were positive during the quarter and demand for USP-grade industrial alcohol for hand sanitizer remained strong. Nutrition benefited from growing demand for flavors, pet food, feed for livestock, plant-based proteins, and probiotics. Lower out-of-home consumption caused by COVID-19 lockdown measures negatively impacted flavors volumes especially in the food service channel.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)***Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019***

Net earnings attributable to controlling interests decreased \$182 million from \$407 million to \$225 million. Segment operating profit increased \$146 million from \$758 million to \$904 million. Included in segment operating profit in the current quarter was net income of \$55 million consisting of gains on the sale of a portion of the Company's shares in Wilmar and certain other assets partially offset by asset impairment, restructuring, and settlement charges. Included in segment operating profit in the prior year quarter were asset impairment charges of \$6 million. Adjusted segment operating profit increased \$85 million to \$849 million due primarily to higher results in Refined Products and Other, Starches and Sweeteners, Vantage Corn Processors, Human and Animal Nutrition, and higher equity earnings from the Wilmar investment, partially offset by lower results in Ag Services, Crushing, and Other Business. Corporate results were a net charge of \$704 million in the current quarter compared to \$255 million in the prior year quarter. Corporate results in the current quarter included early debt retirement charges of \$396 million, a mark-to-market loss of \$15 million on the conversion option of the exchangeable bonds issued in August 2020, and an impairment charge of \$6 million. Corporate results in the prior year quarter included restructuring and pension settlement charges of \$47 million related to early retirement and reorganization initiatives and a credit of \$16 million from the effect of changes in agricultural commodity prices on LIFO inventory valuation reserves.

Income tax expense decreased \$121 million to a benefit of \$26 million. The Company's effective tax rate for the quarter ended September 30, 2020 was (13.0)% compared to 18.9% for the quarter ended September 30, 2019. The change in the rate was due to a shift in the geographical mix of forecasted pretax earnings and significant transactions that occurred during the quarter, including the early debt retirement and the tax-free sale of a portion of the Company's shares in Wilmar, which resulted in a significant decrease in the previously forecasted 2020 effective tax rate. The impact of U.S. tax credits, primarily the biodiesel and railroad tax credits, also contributed significantly to the decreased rate.

In March 2020, the CARES Act was signed into law in the United States. The Company does not expect the provisions of the CARES Act to have a material impact on the annual effective tax rate for the year ending December 31, 2020.

Analysis of Statements of Earnings

Processed volumes by product for the quarter are as follows (in metric tons):

(In thousands)	Three Months Ended September 30,		
	2020	2019	Change
Oilseeds	8,970	9,062	(92)
Corn	4,084	5,619	(1,535)
Total	13,054	14,681	(1,627)

The Company generally operates its production facilities, on an overall basis, at or near capacity, adjusting facilities individually, as needed, to react to the current margin environment and seasonal local supply and demand conditions. The overall decrease in corn processed is primarily related to the idling of two dry mill facilities in response to the current low ethanol demand. The Company currently expects that the idled facilities will be restarted as demand for ethanol improves within the next 12 months.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Revenues by segment for the quarter are as follows:

	Three Months Ended		
	September 30,		
	2020	2019	Change
	(In millions)		
Ag Services and Oilseeds			
Ag Services	\$ 7,352	\$ 8,246	\$ (894)
Crushing	2,317	2,465	(148)
Refined Products and Other	1,858	1,905	(47)
Total Ag Services and Oilseeds	11,527	12,616	(1,089)
Carbohydrate Solutions			
Starches and Sweeteners	1,574	1,526	48
Vantage Corn Processors	490	1,039	(549)
Total Carbohydrate Solutions	2,064	2,565	(501)
Nutrition			
Human Nutrition	719	703	16
Animal Nutrition	732	754	(22)
Total Nutrition	1,451	1,457	(6)
Other Business	84	88	(4)
Total	\$ 15,126	\$ 16,726	\$ (1,600)

Revenues and cost of products sold in a commodity merchandising and processing business are significantly correlated to the underlying commodity prices and volumes. During periods of significant changes in commodity prices, the underlying performance of the Company is better evaluated by looking at margins because both revenues and cost of products sold, particularly in Ag Services and Oilseeds, generally have a relatively equal impact from commodity price changes which generally result in an insignificant impact to gross profit.

Revenues decreased \$1.6 billion to \$15.1 billion. Lower sales volumes of rice, ethanol, oils, soybeans, and wheat were partially offset by higher sales prices of oils and soybeans. Ag Services and Oilseeds revenues decreased 9% to \$11.5 billion due to lower sales volumes (\$1.4 billion), partially offset by higher sales prices (\$0.3 billion). Carbohydrate Solutions revenues decreased 20% to \$2.1 billion due primarily to lower sales volumes of ethanol (\$0.5 billion). Nutrition revenues of \$1.5 billion were comparable to the prior year quarter.

Cost of products sold decreased \$1.6 billion to \$14.1 billion due principally to lower volumes. Included in cost of products sold in the prior quarter was a credit of \$16 million from the effect of changes in agricultural commodity prices on LIFO inventory valuation reserves. Manufacturing expenses of \$1.4 billion were comparable to the prior year quarter.

Foreign currency translation impacts had an immaterial impact on both revenues and cost of products sold.

Gross profit decreased \$36 million or 3%, to \$1.0 billion. Lower results in Crushing (\$70 million) and Ag Services (\$66 million) were offset by higher results in Starches and Sweeteners (\$59 million), Refined Products and Other (\$48 million), and Human Nutrition (\$36 million). These factors are explained in the segment operating profit discussion on page 45. The effect of changes in agricultural commodity prices on LIFO inventory valuation reserves had a positive impact on gross profit of \$16 million in the prior year quarter compared to no impact in the current quarter due to the discontinuation of LIFO effective January 1, 2020. Railroad maintenance expenses in Corporate of \$28 million in the current quarter also contributed to the decrease in gross profit.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Selling, general, and administrative expenses increased \$58 million to \$636 million due principally to variable performance-related compensation expense accruals which were low in the prior-year quarter.

Asset impairment, exit, and restructuring costs decreased \$49 million to \$4 million. Charges in the current quarter consisted of individually insignificant long-lived asset impairments of \$3 million and restructuring charges of \$1 million. Charges in the prior year quarter consisted of \$6 million of impairments related to certain long-lived assets presented as specified items within segment operating profit and \$47 million of restructuring and pension settlement charges in Corporate related to early retirement and reorganization initiatives.

Interest expense increased \$3 million to \$100 million due to the mark-to-market loss adjustment related to the conversion option of the exchangeable bonds issued in August 2020, partially offset by net interest savings from cross currency swaps and lower interest rates and short-term debt balances.

Equity in earnings of unconsolidated affiliates increased \$72 million to \$160 million due to higher earnings from the Company's investments in Wilmar and Pacificor.

Other expense - net increased \$296 million to \$278 million. Expense in the current quarter included charges of \$396 million related to multiple early debt redemptions and the \$0.7 billion debt tender in September 2020, partially offset by a \$58 million gain on the sale of a portion of the Company's shares in Wilmar, gains on the sales of certain other assets, the non-service components of net pension benefit income, and other income. Income in the prior year quarter included gains on disposals of individually insignificant assets in the ordinary course of business and other income, partially offset by foreign exchange losses.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Segment operating profit (loss), adjusted segment operating profit (a non-GAAP measure), and earnings before income taxes for the quarter are as follows:

Segment Operating Profit (Loss)	Three Months Ended September 30,		
	2020	2019	Change
	(In millions)		
Ag Services and Oilseeds			
Ag Services	\$ 147	\$ 161	\$ (14)
Crushing	66	138	(72)
Refined Products and Other	127	80	47
Wilmar	96	38	58
Total Ag Services and Oilseeds	<u>436</u>	<u>417</u>	<u>19</u>
Carbohydrate Solutions			
Starches and Sweeteners	257	197	60
Vantage Corn Processors	(11)	(15)	4
Total Carbohydrate Solutions	<u>246</u>	<u>182</u>	<u>64</u>
Nutrition			
Human Nutrition	128	102	26
Animal Nutrition	19	16	3
Total Nutrition	<u>147</u>	<u>118</u>	<u>29</u>
Other Business	20	47	(27)
Specified Items:			
Gains (losses) on sales of assets and businesses	57	—	57
Asset impairment, restructuring, and settlement charges	(2)	(6)	4
Total Specified Items	<u>55</u>	<u>(6)</u>	<u>61</u>
Total Segment Operating Profit	\$ 904	\$ 758	\$ 146
Adjusted Segment Operating Profit ⁽¹⁾	\$ 849	\$ 764	\$ 85
Segment Operating Profit	\$ 904	\$ 758	\$ 146
Corporate	(704)	(255)	(449)
Earnings Before Income Taxes	<u>\$ 200</u>	<u>\$ 503</u>	<u>\$ (303)</u>

⁽¹⁾ Adjusted segment operating profit is segment operating profit excluding the above specified items.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Ag Services and Oilseeds operating profit increased 5%. Ag Services results were lower year-over-year. Strong execution in North America which drove higher year-over-year export margins and volumes were offset by negative timing impacts which are expected to reverse in the coming quarters. Results were lower in South America, driven by slower Brazilian farmer selling following the aggressive selling in the first half of the year. Global Trade's continued focus on serving customers contributed significantly to results as did a \$54 million settlement related to U.S. high water insurance claims in 2019. Crushing was lower versus the prior-year period driven largely by negative timing impacts which are expected to reverse in the coming quarters. Strong execution in an environment of tighter soybean supplies and solid global demand for meal and oil supported improved execution margins in North and South America, partially offset by lower year-over-year margins in EMEAI. Refined Products and Other delivered significantly higher year-over year results, driven by improved biodiesel margins around the globe and contributions from packaged oils in South America. Equity earnings from Wilmar were substantially higher versus the prior-year quarter.

Carbohydrate Solutions operating profit increased 35%. Starches and Sweeteners results were substantially higher versus the third quarter of 2019. In North America, balanced ethanol industry supply and demand drove improved wet mill ethanol margins versus the prior-year quarter. Demand for starches in North America was substantially stronger than earlier in the year, and higher than the prior-year quarter. Reduced food service demand affected sweetener and flour volumes though retail demand for flour remained solid. Strong risk management and improved net corn costs contributed positively to results. EMEAI delivered improved results on higher demand and reduced manufacturing and raw material costs. Vantage Corn Processors results were higher driven by distribution gains on wet mill ethanol and significantly improved year-over-year industry ethanol margins, partially offset by fixed costs from the two temporarily idled dry mills. Increased volumes and margins of USP-grade industrial alcohol for hand sanitizer also supported improved performance.

Nutrition operating profit increased 25%. Human Nutrition results were substantially higher versus the prior-year quarter, with improved results across the business portfolio. Flavors delivered another exceptional quarter, driven by increased revenue globally and improved mix and margins. Plant-based proteins helped drive a solid performance in Specialty Ingredients. Sales growth in probiotics and enzymes, along with income from fermentation, contributed to strong results in Health & Wellness. Animal Nutrition results were higher year-over-year. Continued delivery of Neovia synergies, strength in livestock feed, and year-over-year improvement in amino acids were partially offset by softer aquaculture feed demand as well as negative foreign currency impacts.

Other Business operating profit decreased 57% due to lower results from the Company's futures commission and brokerage business and lower underwriting results from the captive insurance operations, which included a \$17 million settlement for the high water claims in Ag Services and Oilseeds.

Corporate results for the quarter are as follows:

	Three Months Ended		
	September 30,		
	2020	2019	Change
	(In millions)		
LIFO adjustment	\$ —	\$ 16	\$ (16)
Interest expense-net	(83)	(85)	2
Unallocated corporate costs	(196)	(139)	(57)
Early debt retirement charges	(396)	—	(396)
Loss on debt conversion option	(15)	—	(15)
Impairment and restructuring charges	(6)	(47)	41
Other income (charges)	(8)	—	(8)
Total Corporate	<u>\$ (704)</u>	<u>\$ (255)</u>	<u>\$ (449)</u>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Corporate results were a net charge of \$704 million in the current quarter compared to \$255 million in the prior year quarter. The effect of changes in agricultural commodity prices on LIFO inventory valuation reserve resulted in a credit of \$16 million in the prior quarter. Interest expense-net decreased \$2 million due principally to lower short-term debt balances and net interest savings from cross currency swaps. Unallocated corporate costs increased \$57 million due to higher variable performance-related compensation expense accruals. Early debt retirement charges were related to multiple early debt redemptions and the \$0.7 billion debt tender in September 2020. Loss on debt conversion option was related to the mark-to-market adjustment of the conversion option of the exchangeable bonds issued in August 2020. Restructuring charges in the prior quarter, which included pension settlement charges, were related to early retirement and reorganization initiatives. Other charges in the current quarter included railroad maintenance expenses of \$28 million, partially offset by the non-service components of net pension benefit income and other income.

Non-GAAP Financial Measures

The Company uses adjusted earnings per share (EPS), adjusted earnings before taxes, interest, and depreciation and amortization (EBITDA), and adjusted segment operating profit, non-GAAP financial measures as defined by the Securities and Exchange Commission, to evaluate the Company's financial performance. These performance measures are not defined by accounting principles generally accepted in the United States and should be considered in addition to, and not in lieu of, GAAP financial measures.

Adjusted EPS is defined as diluted EPS adjusted for the effects on reported diluted EPS of specified items. Adjusted EBITDA is defined as earnings before taxes, interest, and depreciation and amortization, adjusted for specified items. The Company calculates adjusted EBITDA by removing the impact of specified items and adding back the amounts of interest expense and depreciation and amortization to earnings before income taxes. Adjusted segment operating profit is segment operating profit adjusted, where applicable, for specified items.

Management believes that adjusted EPS, adjusted EBITDA, and adjusted segment operating profit are useful measures of the Company's performance because they provide investors additional information about the Company's operations allowing better evaluation of underlying business performance and better period-to-period comparability. Adjusted EPS, adjusted EBITDA, and adjusted segment operating profit are not intended to replace or be an alternative to diluted EPS, earnings before income taxes, and segment operating profit, respectively, the most directly comparable amounts reported under GAAP.

The table below provides a reconciliation of diluted EPS to adjusted EPS for the three months ended September 30, 2020 and 2019.

	Three months ended September 30,			
	2020		2019	
	In millions	Per share	In millions	Per share
Average number of shares outstanding - diluted	562		563	
Net earnings and reported EPS (fully diluted)	\$ 225	\$ 0.40	\$ 407	\$ 0.72
Adjustments:				
LIFO adjustment - net of tax of \$4 million ⁽¹⁾	—	—	(12)	(0.02)
(Gains) losses on sales of assets and businesses - net of tax of \$3 million ⁽²⁾	(54)	(0.10)	—	—
Early debt retirement charges - net of tax of \$96 million ⁽²⁾	300	0.53	—	—
Loss on debt conversion option - net of tax of \$0 ⁽¹⁾	15	0.03	—	—
Asset impairment, restructuring, and settlement charges - net of tax of \$3 million in 2020 and \$12 million in 2019 ⁽²⁾	5	0.01	41	0.08
Certain discrete tax adjustments	8	0.02	(5)	(0.01)
Total adjustments	274	0.49	24	0.05
Adjusted net earnings and adjusted EPS	\$ 499	\$ 0.89	\$ 431	\$ 0.77

⁽¹⁾ Tax effected using the Company's U.S. tax rate. LIFO accounting was discontinued effective January 1, 2020.

⁽²⁾ Tax effected using the U.S. and other applicable tax rates.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The tables below provide a reconciliation of earnings before income taxes to adjusted EBITDA and adjusted EBITDA by segment for the three months ended September 30, 2020 and 2019.

(In millions)	Three months ended September 30,		
	2020	2019	Change
Earnings before income taxes	\$ 200	\$ 503	\$ (303)
Interest expense	100	97	3
Depreciation and amortization	238	249	(11)
LIFO	—	(16)	16
(Gains) losses on sales of assets and businesses	(57)	—	(57)
Early debt retirement charges	396	—	396
Railroad maintenance expenses	28	—	28
Asset impairment, restructuring, and settlement charges	8	53	(45)
Adjusted EBITDA	<u>\$ 913</u>	<u>\$ 886</u>	<u>\$ 27</u>

(In millions)	Three months ended September 30,		
	2020	2019	Change
Ag Services and Oilseeds	\$ 527	\$ 511	\$ 16
Carbohydrate Solutions	323	264	59
Nutrition	201	175	26
Other Business	21	55	(34)
Corporate	(159)	(119)	(40)
Adjusted EBITDA	<u>\$ 913</u>	<u>\$ 886</u>	<u>\$ 27</u>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Market Factors Influencing Operations or Results in the Nine Months Ended September 30, 2020

The Company is subject to a variety of market factors which affect the Company's operating results. North American crushing margins were volatile due to slow farmer selling and COVID-19 impacts on demand for meal and oil earlier in the year but strengthened in the third quarter due to the increasingly tight soybean stocks in South America. South America saw record origination volumes in the first half of the year as it benefited from strong farmer selling in Brazil driven by the devaluation of the Brazilian Real. Demand and margins for biodiesel remained solid in North and South America. Margins for starches and sweeteners and wheat flour remained solid while demand was soft due to the impacts of COVID-19 in the food service sector. Ethanol margins were mixed as U.S. industry ethanol production exceeded demand and inventories remained high early in the year, but improved in the second and third quarters as ADM and many ethanol producers idled some capacity due to the low demand. Nutrition benefited from growing demand for flavors, pet food, feed for livestock, plant-based proteins, and probiotics. Lower out-of-home consumption caused by COVID-19 lockdown measures negatively impacted flavors volumes, especially in the food service channel, and demand for aqua feed and amino acids. Global demand for amino acids was also negatively impacted by lower livestock counts following an African swine fever outbreak.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

Net earnings attributable to controlling interests increased \$0.2 billion to \$1.1 billion. Segment operating profit increased \$0.3 billion to \$2.3 billion. Included in segment operating profit in the current period was net income of \$20 million consisting of gains on the sale of a portion of the Company's shares in Wilmar and certain other assets, partially offset by asset impairment, restructuring, and settlement charges. Included in segment operating profit in the prior period was a net charge of \$40 million consisting of asset impairment and settlement charges, a gain on the sale of certain assets, and a step-up gain on an equity investment. Adjusted segment operating profit increased \$0.2 billion to \$2.3 billion due primarily to higher results in Ag Services, Refined Products and Other, Vantage Corn Processors, Human and Animal Nutrition, and higher equity earnings from the Wilmar investment, partially offset by lower results in Crushing, Starches and Sweeteners, and Other Business. Corporate results were a net charge of \$1.2 billion for the nine months compared to \$0.9 billion the same period last year. Corporate results included a credit of \$91 million from the elimination of the LIFO reserve in connection with the accounting change effective January 1, 2020, early debt retirement charges of \$410 million, a mark-to-market loss of \$15 million on the conversion option of the exchangeable bonds issued in August 2020, and an impairment charge of \$5 million for the nine months, compared to restructuring and pension settlement and remeasurement charges of \$150 million related to early retirement and reorganization initiatives and a charge of \$10 million from the effect of changes in agricultural commodity prices on LIFO inventory valuation reserves during the same period last year.

Income taxes of \$38 million decreased \$174 million. The Company's effective tax rate for the nine months ended September 30, 2020 was 3.4% compared to 19.4% for the nine months ended September 30, 2019. The change in rate was due primarily to the impact of U.S. tax credits signed into law in December 2019, including a \$73 million discrete tax benefit related to 45G railroad tax credits recognized in the quarter ended March 31, 2020. The 45G railroad tax credits have an offsetting expense in cost of products sold.

In March 2020, the CARES Act was signed into law in the United States. The Company does not expect the provisions of the CARES Act to have a material impact on the annual effective tax rate for the year ending December 31, 2020.

Analysis of Statements of Earnings

Processed volumes by product for the nine months are as follows (in metric tons):

(In thousands)	Nine Months Ended		Change
	2020	2019	
Oilseeds	27,236	27,002	234
Corn	13,717	16,297	(2,580)
Total	40,953	43,299	(2,346)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The Company generally operates its production facilities, on an overall basis, at or near capacity, adjusting facilities individually, as needed, to react to the current margin environment and seasonal local supply and demand conditions. The overall increase in oilseeds is due to increased capacity utilization at new plants combined with downtime in the prior year due to weather-related issues. The overall decrease in corn processed is primarily related to the idling of two dry mill facilities in the second quarter due to the current low ethanol demand. The Company currently expects that the idled facilities will be restarted as demand for ethanol improves within the next 12 months.

Revenues by segment for the nine months are as follows:

	Nine Months Ended September 30,		
	2020	2019	Change
	(In millions)		
Ag Services and Oilseeds			
Ag Services	\$ 22,930	\$ 23,653	\$ (723)
Crushing	7,035	7,130	(95)
Refined Products and Other	5,382	5,599	(217)
Total Ag Services and Oilseeds	35,347	36,382	(1,035)
Carbohydrate Solutions			
Starches and Sweeteners	4,769	4,782	(13)
Vantage Corn Processors	1,625	2,627	(1,002)
Total Carbohydrate Solutions	6,394	7,409	(1,015)
Nutrition			
Human Nutrition	2,161	2,105	56
Animal Nutrition	2,198	2,158	40
Total Nutrition	4,359	4,263	96
Other Business	277	273	4
Total	\$ 46,377	\$ 48,327	\$ (1,950)

Revenues and cost of products sold in a commodity merchandising and processing business are significantly correlated to the underlying commodity prices and volumes. During periods of significant changes in commodity prices, the underlying performance of the Company is better evaluated by looking at margins because both revenues and cost of products sold, particularly in Ag Services and Oilseeds, generally have a relatively equal impact from commodity price changes which generally result in an insignificant impact to gross profit.

Revenues decreased \$2.0 billion to \$46.4 billion due to lower sales volumes, partially offset by higher sales prices. Lower sales volumes of rice, alcohol, oils, and soybeans and lower sales prices of biodiesel and corn, were partially offset by higher sales volumes of biodiesel and corn and higher sales prices of oils and soybeans. Ag Services and Oilseeds revenues decreased 3% to \$35.3 billion due to lower sales volumes (\$1.3 billion), partially offset by higher sales prices (\$0.3 billion). Carbohydrate Solutions revenues decreased 14% to \$6.4 billion due to lower sales volumes (\$0.8 billion) and lower sales prices (\$0.2 billion). Nutrition revenues increased 2% to \$4.4 billion due to higher sales volumes and prices.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Cost of products sold decreased \$2.1 billion to \$43.3 billion due to principally to lower volumes. Included in cost of products sold was a credit of \$91 million from the effect of the elimination of the LIFO reserve in connection with the accounting change in the current period compared to a charge of \$10 million from the effect of changes in agricultural commodity prices on LIFO inventory valuation reserves in the prior period. Manufacturing expenses decreased \$0.1 billion to \$4.2 billion due principally to lower energy costs and decreased operating supplies and maintenance expenses, partially offset by railroad maintenance expenses. Foreign currency translation impacts decreased both revenues and cost of products sold by \$0.4 billion.

Gross profit increased \$0.1 billion or 4% to \$3.1 billion. Higher results in Human and Animal Nutrition (\$154 million), Ag Services (\$117 million), Refined Products and Other (\$74 million), and Vantage Corn Processors (\$42 million) were partially offset by lower results in Crushing (\$273 million) and Starches and Sweeteners (\$15 million). These factors are explained in the segment operating profit discussion on page 52. In Corporate, the positive period over period impact from LIFO of \$101 million due to the elimination of the LIFO reserve in connection with the accounting change effective January 1, 2020 and the changes in agricultural commodity prices on LIFO inventory valuation reserves in the prior period were offset by railroad maintenance expenses of \$101 million.

Selling, general, and administrative expenses increased \$0.1 billion to \$1.9 billion due principally to higher variable performance-related compensation expense accruals compared to lower accruals in the prior period.

Asset impairment, exit, and restructuring costs decreased \$139 million to \$61 million. Charges in the current period consisted primarily of \$50 million of impairments related to certain intangible and other long-lived assets and \$11 million of restructuring charges. Prior period charges consisted of \$50 million of impairments related to certain long-lived assets presented as specified items within segment operating profit, and \$150 million of restructuring and pension settlement and remeasurement charges in Corporate primarily related to early retirement and reorganization initiatives.

Interest expense decreased \$37 million to \$270 million due to lower interest rates and net interest savings from cross currency swaps, partially offset by the mark-to-market loss adjustment related to the conversion option of the exchangeable bonds issued in August 2020.

Equity in earnings of unconsolidated affiliates increased \$124 million to \$403 million due to higher earnings from the Company's investments in Wilmar and Pacifcor, partially offset by a loss in the current period from the Company's investment in Olenex.

Other expense - net increased \$218 million to \$179 million. Current period expense included charges of \$410 million related to multiple early debt redemptions and the \$0.7 billion debt tender in September 2020 and loss provisions related to the Company's futures commission and brokerage business, partially offset by gains related to the sale of a portion of the Company's shares in Wilmar and certain other assets, the non-service components of net pension benefit income, foreign exchange gains, and other income. Prior period income included gains on the sale of certain assets, step-up gains on equity investments, gains on disposals of individually insignificant assets in the ordinary course of business, and other income, partially offset by foreign exchange losses.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Segment operating profit, adjusted segment operating profit (a non-GAAP measure), and earnings before income taxes for the nine months are as follows:

	Nine Months Ended September 30,		
	2020	2019	Change
Segment Operating Profit (Loss)	(In millions)		
Ag Services and Oilseeds			
Ag Services	\$ 482	\$ 326	\$ 156
Crushing	249	493	(244)
Refined Products and Other	286	223	63
Wilmar	254	154	100
Total Ag Services and Oilseeds	1,271	1,196	75
Carbohydrate Solutions			
Starches and Sweeteners	533	547	(14)
Vantage Corn Processors	(24)	(77)	53
Total Carbohydrate Solutions	509	470	39
Nutrition			
Human Nutrition	372	293	79
Animal Nutrition	75	23	52
Total Nutrition	447	316	131
Other Business	69	72	(3)
Specified Items:			
Gains (losses) on sales of assets and businesses	80	12	68
Asset impairment, restructuring, and settlement charges	(60)	(52)	(8)
Total Specified Items	20	(40)	60
Total Segment Operating Profit	\$ 2,316	\$ 2,014	\$ 302
Adjusted Segment Operating Profit ⁽¹⁾	\$ 2,296	\$ 2,054	\$ 242
Segment Operating Profit	\$ 2,316	\$ 2,014	\$ 302
Corporate	(1,189)	(922)	(267)
Earnings Before Income Taxes	\$ 1,127	\$ 1,092	\$ 35

⁽¹⁾ Adjusted segment operating profit is segment operating profit excluding the above specified items.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Ag Services and Oilseeds operating profit increased 6%. Ag Services results were higher than the prior period, which were negatively impacted by high water conditions in North America. Strong performance in global trade was driven by strong results in destination marketing and structured trade finance. Robust farmer selling in Brazil drove higher origination margins, which were partially offset by weaker results in North America. Current period results also included a \$54 million settlement related to U.S. high water insurance claims in 2019. Crushing results were lower than the prior year period. Volumes were strong and execution margins were solid although below the high realized margins in the first half of 2019. Negative timing impacts also contributed to the lower results in the current period. Refined Products and Other results were higher due to improved biodiesel margins in both North and South America. Equity earnings from Wilmar were higher year-over-year.

Carbohydrate Solutions operating profit increased 8%. Starches and Sweeteners results were down driven largely by negative mark-to-market timing effects on forward sales of corn oil. Absent those impacts, results were higher due to better operating performance at the Decatur facility, strong results in wheat milling, and improved conditions in EMEAI. VCP results improved from the prior period due to effective risk management and increased demand for industrial ethanol.

Nutrition operating profit increased 41%. Human Nutrition delivered strong performance and growth across its broad portfolio. Strong execution to meet rising customer demand for plant-based proteins and edible beans drove higher results in Specialty Ingredients. Additional income from fermentation and strong sales for probiotics and fiber drove higher performance in Health & Wellness. Flavors continued to deliver solid results. Animal Nutrition results improved year-over-year driven by strong performance from Neovia, good margins in commercial and livestock premix, and solid sales in pet care.

Other Business operating profit decreased 4%. Lower results, including loss provisions related to the Company's futures commission and brokerage business, were partially offset by improvements in underwriting performance at the captive insurance operations.

Corporate results for the nine months are as follows:

	Nine Months Ended		
	September 30,		
	2020	2019	Change
	(In millions)		
LIFO credit (charge)	\$ 91	\$ (10)	\$ 101
Interest expense-net	(246)	(276)	30
Unallocated corporate costs	(579)	(454)	(125)
Expenses related to acquisitions	—	(14)	14
Early debt retirement charges	(410)	—	(410)
Loss on debt conversion option	(15)	—	(15)
Impairment and restructuring charges	(5)	(150)	145
Other charges	(25)	(18)	(7)
Total Corporate	<u>\$ (1,189)</u>	<u>\$ (922)</u>	<u>\$ (252)</u>

Corporate results were a net charge of \$1.2 billion in the current period compared to \$0.9 billion in the prior period. The elimination of the LIFO reserve in connection with the accounting change effective January 1, 2020 resulted in a credit of \$91 million in the current period compared to a LIFO charge of \$10 million in the prior period. Interest expense-net decreased \$30 million due principally to lower interest rates and net interest savings from cross currency swaps. Unallocated corporate costs increased \$125 million due principally to higher variable performance-related compensation expense accruals. Acquisition expenses in the prior period were related to the Neovia acquisition. Early debt retirement charges were related to multiple early debt redemptions and the \$0.7 billion debt tender in September 2020. Loss on debt conversion option was related to the mark-to-market adjustment of the conversion option of the exchangeable bonds issued in August 2020. Restructuring charges in the prior period, which included pension settlement and remeasurement charges, were related to early retirement and reorganization initiatives. Other charges in the current period included railroad maintenance expenses of \$101 million, partially offset by foreign exchange gains, an investment revaluation gain, and the non-service components of net pension benefit income. Other charges in the prior period included foreign exchange losses, partially offset by the non-service components of net pension benefit income.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Non-GAAP Financial Measures

The Company uses adjusted EPS, adjusted EBITDA, and adjusted segment operating profit, non-GAAP financial measures as defined by the Securities and Exchange Commission, to evaluate the Company's financial performance. These performance measures are not defined by accounting principles generally accepted in the United States and should be considered in addition to, and not in lieu of, GAAP financial measures.

Adjusted EPS is defined as diluted EPS adjusted for the effects on reported diluted EPS of specified items. Adjusted EBITDA is defined as earnings before taxes, interest, and depreciation and amortization, adjusted for specified items. The Company calculates adjusted EBITDA by removing the impact of specified items and adding back the amounts of interest expense and depreciation and amortization to earnings before income taxes. Adjusted segment operating profit is segment operating profit adjusted, where applicable, for specified items.

Management believes that adjusted EPS, adjusted EBITDA, and adjusted segment operating profit are useful measures of the Company's performance because they provide investors additional information about the Company's operations allowing better evaluation of underlying business performance and better period-to-period comparability. Adjusted EPS, adjusted EBITDA, and adjusted segment operating profit are not intended to replace or be an alternative to diluted EPS, earnings before income taxes, and segment operating profit, respectively, the most directly comparable amounts reported under GAAP.

The table below provides a reconciliation of diluted EPS to adjusted EPS for the nine months ended September 30, 2020 and 2019.

	Nine months ended September 30,			
	2020		2019	
	In millions	Per share	In millions	Per share
Average number of shares outstanding - diluted	563		565	
Net earnings and reported EPS (fully diluted)	\$ 1,085	\$ 1.93	\$ 875	\$ 1.55
Adjustments:				
LIFO charge (credit) - net of tax of \$22 million in 2020 and \$2 million in 2019 ⁽¹⁾	(69)	(0.12)	8	0.01
(Gains) losses on sales of assets and businesses - net of tax of \$8 million in 2020 and \$3 million in 2019 ⁽²⁾	(72)	(0.13)	(9)	(0.02)
Asset impairment, restructuring, and settlement charges - net of tax of \$16 million in 2020 and \$46 million in 2019 ⁽²⁾	49	0.09	156	0.28
Expenses related to acquisitions - net of tax of \$5 million ⁽²⁾	—	—	9	0.02
Early debt retirement charges - net of tax of \$99 million ⁽²⁾	311	0.55	—	—
Loss on debt conversion option - net of tax of \$0 ⁽¹⁾	15	0.03	—	—
Certain discrete tax adjustments	16	0.03	(7)	(0.01)
Total adjustments	250	0.45	157	0.28
Adjusted net earnings and adjusted EPS	\$ 1,335	\$ 2.38	\$ 1,032	\$ 1.83

⁽¹⁾ Tax effected using the Company's U.S. tax rate. LIFO accounting was discontinued effective January 1, 2020.

⁽²⁾ Tax effected using the applicable tax rates.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The tables below provide a reconciliation of earnings before income taxes to adjusted EBITDA and adjusted EBITDA by segment for the nine months ended September 30, 2020 and 2019.

(In millions)	Nine months ended September 30,		
	2020	2019	Change
Earnings before income taxes	\$ 1,127	\$ 1,092	\$ 35
Interest expense	270	307	(37)
Depreciation and amortization	727	742	(15)
LIFO	(91)	10	(101)
(Gains) losses on sales of assets and businesses	(80)	(12)	(68)
Early debt retirement charges	410	—	410
Expenses related to acquisitions	—	14	(14)
Railroad maintenance expenses	101	—	101
Asset impairment, restructuring, and settlement charges	65	202	(137)
Adjusted EBITDA	<u>\$ 2,529</u>	<u>\$ 2,355</u>	<u>\$ 174</u>

(In millions)	Nine months ended September 30,		
	2020	2019	Change
Ag Services and Oilseeds	\$ 1,543	\$ 1,478	\$ 65
Carbohydrate Solutions	745	716	29
Nutrition	617	482	135
Other Business	75	97	(22)
Corporate	(451)	(418)	(33)
Adjusted EBITDA	<u>\$ 2,529</u>	<u>\$ 2,355</u>	<u>\$ 174</u>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Liquidity and Capital Resources

A Company objective is to have sufficient liquidity, balance sheet strength, and financial flexibility to fund the operating and capital requirements of a capital-intensive agricultural commodity-based business. The Company depends on access to credit markets, which can be impacted by its credit rating and factors outside of ADM's control, to fund its working capital needs and capital expenditures. The primary source of funds to finance ADM's operations, capital expenditures, and advancement of its growth strategy is cash generated by operations and lines of credit, including a commercial paper borrowing facility and accounts receivable securitization programs. In addition, the Company believes it has access to funds from public and private equity and debt capital markets in both U.S. and international markets.

Cash used in operating activities was \$1.5 billion for the nine months compared to \$3.6 billion for the same period last year. Working capital changes, including the increase in deferred consideration, decreased cash by \$3.8 billion for the nine months compared to \$5.3 billion for the same period last year. Inventories decreased approximately \$0.4 billion primarily due to lower inventory quantities, partially offset by higher prices. Trade payables declined approximately \$0.4 billion principally reflecting seasonal cash payments for North American harvest-related grain purchases.

Increase in deferred consideration in securitized receivables of \$4.6 billion and \$5.7 billion for the nine months and the same period last year, respectively, was offset by \$4.6 billion and \$5.7 billion of net consideration received for beneficial interest obtained for selling trade receivables for the nine months and the same period last year, respectively.

Cash provided by investing activities was \$4.7 billion for the nine months compared to \$3.3 billion for the same period last year. Capital expenditures for the nine months of \$0.6 billion were comparable to the same period last year. Net assets of businesses acquired were \$3 million for the nine months compared to \$1.9 billion for the same period last year due to the acquisition of Neovia in 2019. Proceeds from sales of business and assets for the nine months of \$0.7 billion related to the sale of a portion of the Company shares in Wilmar and certain other assets compared to \$43 million for the same period last year. Net consideration received for beneficial interest obtained for selling trade receivables was \$4.6 billion for the nine months compared to \$5.7 billion the same period last year.

Cash used in financing activities was \$1.9 billion for the nine months compared to \$0.4 billion for the same period last year. Long-term debt borrowings for the nine months of \$1.8 billion consisted of the \$0.5 billion and \$1.0 billion aggregate principal amounts of 2.75% Notes due in 2025 and 3.25% Notes due in 2030, respectively, issued on March 27, 2020 and the \$0.3 billion aggregate principal amount of zero coupon exchangeable bonds due in 2023 issued on August 26, 2020, compared to long-term borrowings of \$3 million for the same period last year. Commercial paper net payments for the nine months were \$1.0 billion compared to net borrowings of \$1.0 billion for the same period last year. Proceeds from the borrowings in the current period will be used for general corporate purposes, including the reduction of short-term debt. Long-term debt payments for the nine months of \$2.0 billion related to the early redemption of the \$0.5 billion and \$0.4 billion aggregate principal amounts of 4.479% due in 2021 and 3.375% debentures due in 2022, respectively, the repurchase of \$0.7 billion aggregate principal amount of Debentures, and the redemption of \$0.1 billion aggregate principal amount of private placement notes due in 2021 and 2024, compared to \$0.6 billion for the same period last year which primarily related to the €0.5 billion Floating Rate Notes that matured in June 2019. Share repurchases for the nine months were \$0.1 billion compared to \$0.2 billion for the same period last year. Dividends of \$0.6 billion for the nine months were comparable to the same period last year.

At September 30, 2020, the Company had \$0.9 billion of cash, cash equivalents, and short-term marketable securities and a current ratio, defined as current assets divided by current liabilities, of 1.6 to 1. Included in working capital was \$5.6 billion of readily marketable commodity inventories. At September 30, 2020, the Company's capital resources included shareholders' equity of \$19.3 billion and lines of credit, including the accounts receivable securitization programs described below, totaling \$10.7 billion, of which \$9.1 billion was unused. The Company's ratio of long-term debt to total capital (the sum of the Company's long-term debt and shareholders' equity) was 29% at September 30, 2020 and December 31, 2019. The Company uses this ratio as a measure of the Company's long-term indebtedness and an indicator of financial flexibility. The Company's ratio of net debt (the sum of short-term debt, current maturities of long-term debt, and long-term debt less the sum of cash and cash equivalents and short-term marketable securities) to capital (the sum of net debt and shareholders' equity) was 27% and 29% at September 30, 2020 and December 31, 2019, respectively. Of the Company's total lines of credit, \$5.0 billion supported the combined U.S. and European commercial paper borrowing programs, against which there was no commercial paper outstanding at September 30, 2020.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

COVID-19 has not significantly impacted ADM's capital and financial resources, and pricing on its revolving credit facility remains unchanged. However, in line with the overall markets, COVID-19 has created dislocations in the credit markets during certain periods in the first half of 2020 with corporate spreads increasing, partially offset by a decline in benchmark yields. The Company has utilized its diversified sources of liquidity, including its inventory financing and bilateral bank facilities, to ensure it has ample cash and is prepared for possible unexpected credit market disruptions. Additionally, ADM has been accepted into the Federal Reserve's Commercial Paper Financing Facility and the Bank of England's COVID Corporate Financing Facility ensuring uninterrupted access to both the U.S. and European commercial paper markets. To date, the Company has not utilized these facilities.

During the second half of 2020, the global credit market stabilized with corporate credit spreads below pre-pandemic levels. Continued actions by central banks provided additional support in both the short-term and long-term funding markets further stabilizing corporate credit markets. Low benchmark yields and favorable credit spreads coupled with continued strong cash flow generation during the second half of the year presented opportunities for ADM to re-balance the company's liability portfolio to pre-pandemic levels. Starting in June 2020, ADM began a series of liability management transactions including multiple early debt redemptions and the \$0.7 billion debt tender in September 2020 to capitalize on all-time low interest rates.

As of September 30, 2020, the Company had \$0.9 billion of cash and cash equivalents, \$0.4 billion of which was cash held by foreign subsidiaries whose undistributed earnings are considered indefinitely reinvested. Based on the Company's historical ability to generate sufficient cash flows from its U.S. operations and unused and available U.S. credit capacity of \$6.2 billion, the Company has asserted that these funds are indefinitely reinvested outside the U.S.

The Company has accounts receivable securitization programs (the "Programs") with certain commercial paper conduit purchasers and committed purchasers. The Programs provide the Company with up to \$1.8 billion in funding against accounts receivable transferred into the Programs and expands the Company's access to liquidity through efficient use of its balance sheet assets (see Note 16 of "Notes to Consolidated Financial Statements" included in Item 1 herein, "Financial Statements" for more information and disclosures on the Programs). As of September 30, 2020, the Company utilized \$1.4 billion of its facility under the Programs.

For the nine months ended September 30, 2020, the Company spent approximately \$0.6 billion in capital expenditures, \$0.6 billion in dividends, and \$0.1 billion in share repurchases. The Company has a stock repurchase program. Under the program, the Company acquired 3.5 million shares for the nine months ended September 30, 2020, and has 104.9 million shares remaining that may be repurchased until December 31, 2024.

The Company expects capital expenditures of approximately \$0.8 billion, dividends of \$0.8 billion, and share repurchases of \$0.1 billion during 2020.

Contractual Obligations and Commercial Commitments

The Company's purchase obligations as of September 30, 2020 and December 31, 2019 were \$19.5 billion and \$12.2 billion, respectively. The increase is primarily related to obligations to purchase higher quantities of agricultural commodity inventories. As of September 30, 2020, the Company expects to make payments related to purchase obligations of \$18.1 billion within the next twelve months. There were no other material changes in the Company's contractual obligations during the quarter ended September 30, 2020.

Off Balance Sheet Arrangements

On October 1, 2020, the Company restructured the First Program from a deferred purchase price to a pledge structure. Under the new structure, ADM Receivables transfers a portion of the purchased accounts receivable together with an equally proportional security interest in all of its right, title, and interest in the remaining purchased accounts receivable to each of the First Purchasers. In exchange, ADM Receivables receives a cash payment for the accounts receivables transferred. See Note 16 of "Notes to Consolidated Financial Statements" included in Item 1 herein, "Financial Statements" for more information about the First Program.

There were no material changes in the Company's off balance sheet arrangements during the quarter ended September 30, 2020.

Critical Accounting Policies

There were no material changes in the Company's critical accounting policies during the quarter ended September 30, 2020.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk inherent in the Company's market risk sensitive instruments and positions is the potential loss arising from adverse changes in: commodity market prices as they relate to the Company's net commodity position, foreign currency exchange rates, and interest rates. Significant changes in market risk sensitive instruments and positions for the quarter ended September 30, 2020 are described below. There were no material changes during the period in the Company's potential loss arising from changes in foreign currency exchange rates and interest rates.

For detailed information regarding the Company's market risk sensitive instruments and positions, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Commodities

The availability and prices of agricultural commodities are subject to wide fluctuations due to factors such as changes in weather conditions, crop disease, plantings, government programs and policies, competition, changes in global demand, changes in customer preferences and standards of living, and global production of similar and competitive crops.

The fair value of the Company's commodity position is a summation of the fair values calculated for each commodity by valuing all of the commodity positions at quoted market prices for the period, where available, or utilizing a close proxy. The Company has established metrics to monitor the amount of market risk exposure, which consist of volumetric limits and value-at-risk (VaR) limits. VaR measures the potential loss, at a 95% confidence level, that could be incurred over a one-year period. Volumetric limits are monitored daily and VaR calculations and sensitivity analysis are monitored weekly.

In addition to measuring the hypothetical loss resulting from an adverse two standard deviation move in market prices (assuming no correlations) over a one-year period using VaR, sensitivity analysis is performed measuring the potential loss in fair value resulting from a hypothetical 10% adverse change in market prices. The highest, lowest, and average weekly position together with the market risk from a hypothetical 10% adverse price change is as follows:

Long/(Short) (In millions)	Nine months ended September 30, 2020		Year ended December 31, 2019	
	Fair Value	Market Risk	Fair Value	Market Risk
Highest position	\$ 668	\$ 67	\$ 576	\$ 58
Lowest position	(842)	(84)	(83)	(8)
Average position	(131)	(13)	280	28

The change in fair value of the average position was due to a decrease in average quantities and, to a lesser extent, a decrease in price underlying the weekly commodity position.

ITEM 4. CONTROLS AND PROCEDURES

As of September 30, 2020, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. There was no change in the Company's internal controls over financial reporting during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

ITEM 4. CONTROLS AND PROCEDURES (Continued)

During 2018, the Company launched Readiness to drive new efficiencies and improve the customer experience in the Company's existing businesses through a combination of data analytics, process simplification and standardization, and behavioral and cultural change, building upon its earlier IADM and operational excellence programs. As part of this transformation, the Company is implementing a new enterprise resource planning (ERP) system on a worldwide basis, which is expected to occur in phases over the next several years. The Company continues to consider these changes in its design of and testing for effectiveness of internal controls over financial reporting and concluded, as part of the evaluation described in the above paragraph, that the implementation of the new ERP in these circumstances has not materially affected its internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is routinely involved in a number of actual or threatened legal actions, including those involving alleged personal injuries, employment law, product liability, intellectual property, environmental issues, alleged tax liability (see Note 10 for information on income tax matters), and class actions. The Company also routinely receives inquiries from regulators and other government authorities relating to various aspects of our business, and at any given time, the Company has matters at various stages of resolution. The outcomes of these matters are not within our complete control and may not be known for prolonged periods of time. In some actions, claimants seek damages, as well as other relief including injunctive relief, that could require significant expenditures or result in lost revenues. In accordance with applicable accounting standards, the Company records a liability in its consolidated financial statements for material loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a material loss contingency is reasonably possible but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed in the notes to the consolidated financial statements. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and governmental proceedings involving the Company are inherently difficult to predict, particularly when the matters are in early procedural stages, with incomplete facts or legal discovery; involve unsubstantiated or indeterminate claims for damages; potentially involve penalties, fines, disgorgement, or punitive damages; or could result in a change in business practice.

On September 4, 2019, AOT Holding AG (AOT) filed a putative class action under the U.S. Commodities Exchange Act in federal district court in Urbana, Illinois, alleging that the Company sought to manipulate the benchmark price used to price and settle ethanol derivatives traded on futures exchanges. AOT alleges that members of the putative class suffered “hundreds of millions of dollars in damages” as a result of the Company's alleged actions. In May 2020, the court granted in part and denied in part the Company's motion to dismiss, and the parties are engaged in discovery. On July 14, 2020, Green Plains Inc. and its related entities filed a putative class action lawsuit, alleging substantially the same operative facts, in federal court in Nebraska, seeking to represent all sellers of ethanol. On July 23, 2020, Midwest Renewable Energy, LLC filed a putative class action in federal court in Illinois alleging substantially the same operative facts and asserting claims under the Sherman Act. The Company denies liability, and is vigorously defending itself in these actions. As these actions are in pretrial proceedings, the Company is unable at this time to predict the final outcome with any reasonable degree of certainty, but believes the outcome will not have a material adverse effect on its financial condition, results of operations, or cash flows.

On September 5, 2019, D&M Farms, Mark Hasty, and Dustin Land filed a putative class action on behalf of a purported class of peanut farmers under the U.S. federal antitrust laws in federal court in Norfolk, Virginia, alleging that the Company's subsidiary, Golden Peanut, and another peanut shelling company, conspired to fix the price they paid to farmers for raw peanuts. In May 2020, the court denied the Company's motion to dismiss, and the parties are engaged in discovery. The Company denies liability and is vigorously defending itself, in this action. As this action is in pretrial proceedings, the Company is unable at this time to predict the final outcome with any reasonable degree of certainty, but believes the outcome will not have a material adverse effect on its financial condition, results of operations, or cash flows.

The Company is not currently a party to any legal proceeding or environmental claim that it believes would have a material adverse effect on its financial position, results of operations, or liquidity.

ITEM 1A. RISK FACTORS

The information presented below updates, and should be read in conjunction with, the risk factors in Part I, “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019. Except as presented below, there were no other significant changes in the Company’s risk factors during the quarter ended September 30, 2020.

The Company faces risks related to health epidemics, pandemics, and similar outbreaks.

ADM is monitoring the novel coronavirus (COVID-19) global pandemic and taking steps to mitigate the potential risks posed by its spread, including working with its customers, employees, suppliers, local communities, and other stakeholders. COVID-19 or other health epidemics, pandemics, or similar outbreaks could impact the Company’s operations if significant portions of its workforce are unable to work effectively, including because of illness, quarantines, government actions, facility closures, or other restrictions. Additionally, third party service providers, suppliers, joint ventures, customers, and other business partners may not be able fulfill their commitments creating additional disruptions for the Company. In such circumstances, ADM may be unable to perform fully on its contractual obligations, critical global supply chain and logistical networks may be affected, and costs and working capital may increase. These cost increases may not be fully recoverable or adequately covered by insurance. In addition, demand for certain products that ADM produces, particularly biofuels and ingredients that go into food and beverages that support the food services channels, may be materially impacted from a prolonged outbreak of COVID-19 or significant local resurgences of the virus, leading to additional government lockdowns, quarantines, or other restrictions. The Company cannot at this time predict the impact of the COVID-19 pandemic on its future financial or operational results, but the impact could potentially be material over time.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program ⁽²⁾	Number of Shares Remaining that May be Purchased Under the Program ⁽²⁾
July 1, 2020 to July 31, 2020	1,579	\$ 41.767	102	104,961,558
August 1, 2020 to August 31, 2020	109,219	43.528	106,337	104,855,221
September 1, 2020 to September 30, 2020	12,930	47.610	172	104,855,049
Total	123,728	\$ 43.932	106,611	104,855,049

(1) Total shares purchased represents those shares purchased in the open market as part of the Company’s publicly announced share repurchase program described below, shares received as payment for the exercise price of stock option exercises, and shares received as payment for the withholding taxes on vested restricted stock awards. During the three-month period ended September 30, 2020, there were 17,117 shares received as payments for the minimum withholding taxes on vested restricted stock awards and for the exercise price of stock option exercises.

(2) On August 7, 2019, the Company’s Board of Directors approved the extension of the stock repurchase program through December 31, 2024 and the repurchase of up to an additional 100,000,000 shares under the extended program.

ITEM 6. EXHIBITS

- (3)(i) [Composite Certificate of Incorporation, as amended \(incorporated by reference to Exhibit 3\(i\) to the Company's Form 10-Q for the quarter ended September 30, 2001 \(File No. 1-44\)\).](#)
- (3)(ii) [Bylaws, as amended through May 1, 2019 \(incorporated by reference to Exhibit 3\(ii\) to the Company's Form 8-K filed on May 7, 2019 \(File No. 1-44\)\).](#)
- (31.1) [Certification of Chief Executive Officer pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\) of the Securities Exchange Act, as amended.](#)
- (31.2) [Certification of Chief Financial Officer pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\) of the Securities Exchange Act, as amended.](#)
- (32.1) [Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- (32.2) [Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- (101) Inline XBRL file set for the consolidated financial statements and accompanying notes in Part I, Item 1, "Financial Statements" of this Quarterly Report on Form 10-Q.
- (104) Inline XBRL for the cover page of this Quarterly Report on Form 10-Q, included in the Exhibit 101 Inline XBRL file set.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ARCHER-DANIELS-MIDLAND COMPANY

/s/ R. G. Young

R. G. Young

Executive Vice President and Chief Financial Officer

/s/ D. C. Findlay

D. C. Findlay

Senior Vice President, General Counsel, and Secretary

Dated: October 30, 2020

RULE 13a – 14(a)/15d-14(a) CERTIFICATION

I, J. R. Luciano, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Archer-Daniels-Midland Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2020

/s/ J. R. Luciano

J. R. Luciano

Chairman, Chief Executive Officer, and President

RULE 13a – 14(a)/15d-14(a) CERTIFICATION

I, R. G. Young, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Archer-Daniels-Midland Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2020

/s/ R. G. Young
R. G. Young
Executive Vice President &
Chief Financial Officer

SECTION 1350 CERTIFICATION

In connection with the Quarterly Report of Archer-Daniels-Midland Company (the “Company”) on Form 10-Q for the quarter ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, J. R. Luciano, Chairman, Chief Executive Officer, and President of the Company, certify that:

- (i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 30, 2020

/s/ J. R. Luciano

J. R. Luciano

Chairman, Chief Executive Officer, and President

SECTION 1350 CERTIFICATION

In connection with the Quarterly Report of Archer-Daniels-Midland Company (the “Company”) on Form 10-Q for the quarter ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, R. G. Young, Executive Vice President and Chief Financial Officer of the Company, certify that:

- (i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 30, 2020

/s/ R. G. Young
R. G. Young
Executive Vice President &
Chief Financial Officer