

ARCHER DANIELS MIDLAND CO

Form 10-Q

November 05, 2012

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, 2012

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.)

4666 Faries Parkway Box 1470

Decatur, Illinois

(Address of principal executive offices)

62525

(Zip Code)

217-424-5200

(Registrant's telephone number, including area code)

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 and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large Accelerated Filer ☒

Non-accelerated Filer ☐

Accelerated Filer ☐

Smaller Reporting Company ☐

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

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

Common Stock, no par value—658,566,339 shares

(October 31, 2012)

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## Archer-Daniels-Midland Company

Consolidated Statements of Earnings  
(Unaudited)

	Three Months Ended September 30, 2012                  2011 (In millions, except per share amounts)	
Net sales and other operating income	\$ 21,808	\$21,902
Cost of products sold	21,002	20,868
Gross Profit	806	1,034
Selling, general, and administrative expenses	390	407
Asset impairment charge	146	-
Interest expense	106	113
Equity in earnings of unconsolidated affiliates	(113)	(124)
Interest income	(30)	(40)
Other (income) expense - net	12	18
Earnings Before Income Taxes	295	660
Income taxes	111	199
Net Earnings Including Noncontrolling Interests	184	461
Less: Net earnings (losses) attributable to noncontrolling interests	2	1
Net Earnings Attributable to Controlling Interests	\$ 182	\$460
Average number of shares outstanding – basic	660	673
Average number of shares outstanding – diluted	661	674
Basic and diluted earnings per common share	\$ 0.28	\$0.68
Dividends per common share	\$ 0.175	\$0.16

See notes to consolidated financial statements.

## Archer-Daniels-Midland Company

Consolidated Statements of Comprehensive Income (Loss)  
(Unaudited)

	Three Months Ended September 30, 2012                  2011 (In millions)	
Net earnings including noncontrolling interests	\$184	\$461
Other comprehensive income (loss):		
Foreign currency translation adjustment	145	(498 )
Tax effect	(7 )	—
Net of tax amount	138	(498 )
Pension liability adjustment	16	8
Tax effect	(7 )	(2 )
Net of tax amount	9	6
Deferred gain (loss) on hedging activities	54	3
Tax effect	(18 )	(2 )
Net of tax amount	36	1
Unrealized gain (loss) on investments	(11 )	(94 )
Tax effect	3	35
Net of tax amount	(8 )	(59 )
Other comprehensive income (loss)	175	(550 )
Comprehensive income (loss) including noncontrolling interests	359	(89 )
Less: Comprehensive income (loss) attributable to noncontrolling interests	4	1
Comprehensive income (loss) attributable to controlling interests	\$355	\$(90 )

See notes to consolidated financial statements.

## Archer-Daniels-Midland Company

## Consolidated Balance Sheets

	(Unaudited)		
	September 30,		June 30,
	2012		2012
	(In millions)		
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,235		\$ 1,291
Short-term marketable securities	507		176
Segregated cash and investments	3,779		3,263
Trade receivables	3,003		3,439
Inventories	13,699		12,192
Other current assets	7,931		6,593
Total Current Assets	30,154		26,954
Investments and Other Assets			
Investments in and advances to affiliates	3,379		3,388
Long-term marketable securities	246		262
Goodwill	541		603
Other assets	557		534
Total Investments and Other Assets	4,723		4,787
Property, Plant, and Equipment			
Land	329		325
Buildings	4,697		4,609
Machinery and equipment	16,887		16,729
Construction in progress	1,058		1,027
	22,971		22,690
Accumulated depreciation	(13,088)	)	(12,878)
Net Property, Plant, and Equipment	9,883		9,812
Total Assets	\$ 44,760		\$ 41,553
Liabilities and Shareholders' Equity			
Current Liabilities			
Short-term debt	\$ 3,678		\$ 2,108
Trade payables	3,674		2,474
Accrued expenses and other payables	9,942		8,367
Current maturities of long-term debt	268		1,677
Total Current Liabilities	17,562		14,626
Long-Term Liabilities			
Long-term debt	6,547		6,535
Deferred income taxes	775		783
Other	1,435		1,440
Total Long-Term Liabilities	8,757		8,758
Shareholders' Equity			
Common stock	6,130		6,102
Reinvested earnings	12,841		12,774

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Accumulated other comprehensive income (loss)	(734 )	(907 )
Noncontrolling interests	204	200
Total Shareholders' Equity	18,441	18,169
Total Liabilities and Shareholders' Equity	\$ 44,760	\$ 41,553

See notes to consolidated financial statements.

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## Archer-Daniels-Midland Company

Consolidated Statements of Cash Flows  
(Unaudited)

	September 30,	
	2012	2011
	(In millions)	
Operating Activities		
Net earnings including noncontrolling interests	\$184	\$461
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation and amortization	217	207
Asset impairment charge	146	-
Deferred income taxes	102	21
Equity in earnings of affiliates, net of dividends	(84)	(57)
Stock compensation expense	22	27
Deferred cash flow hedges	47	9
Other – net	24	114
Changes in operating assets and liabilities		
Segregated cash and investments	(506)	13
Trade receivables	472	(623)
Inventories	(1,415)	809
Other current assets	(1,245)	(18)
Trade payables	1,197	714
Accrued expenses and other payables	1,322	410
Total Operating Activities	483	2,087
Investing Activities		
Purchases of property, plant, and equipment	(252)	(443)
Net assets of businesses acquired	(21)	(12)
Cash divested from deconsolidation	-	(130)
Purchases of marketable securities	(466)	(181)
Proceeds from sales of marketable securities	147	481
Other – net	30	36
Total Investing Activities	(562)	(249)
Financing Activities		
Long-term debt borrowings	3	2
Long-term debt payments	(1,412)	(85)
Net borrowings (payments) under lines of credit agreements	1,547	(663)
Debt exchange premiums	-	(32)
Purchases of treasury stock	-	(240)
Cash dividends	(115)	(107)
Other – net	-	(8)
Total Financing Activities	23	(1,133)
Increase (decrease) in cash and cash equivalents	(56)	705
Cash and cash equivalents – beginning of period	1,291	615
Cash and cash equivalents – end of period	\$1,235	\$1,320

See notes to consolidated financial statements.

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Archer-Daniels-Midland Company

Consolidated Statements of Shareholders' Equity  
(Unaudited)

	Common Stock		Reinvested	Accumulated Other Comprehensive Income (Loss) (In millions)	Noncontrolling Interests	Total Shareholders' Equity
	Shares	Amount	Earnings			
Balance June 30, 2012	659	\$6,102	\$12,774	\$ (907 )	\$ 200	\$ 18,169
Comprehensive income						
Net earnings			182		2	
Other comprehensive income				173	2	
Total comprehensive income						359
Cash dividends paid-.175 per share			(115 )			(115 )
Stock compensation expense		22				22
Other		6				6
Balance September 30, 2012	659	\$6,130	\$12,841	\$ (734 )	\$ 204	\$ 18,441

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 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 complete 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 quarter ended September 30, 2012 are not necessarily indicative of the results that may be expected for the Company's transition period ending December 31, 2012. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended June 30, 2012.

Principles of Consolidation

In the first quarter of fiscal year 2012, the Company sold its majority ownership interest of Hickory Point Bank and Trust Company, fsb (Bank), a previously wholly-owned subsidiary. As a result, the accounts of the Bank were deconsolidated with no impact to after-tax earnings.

Change in Fiscal Year

On May 3, 2012, the Board of Directors of the Company determined that, in accordance with its Bylaws and upon the recommendation of the Audit Committee, the Company's fiscal year shall begin on January 1 and end on December 31 of each year, starting on January 1, 2013. The Company's required transition period of July 1, 2012 to December 31, 2012 will be included in a Form 10-K transition report.

Adoption of New Accounting Standards

Effective July 1, 2012, the Company adopted the amended guidance of Accounting Standards Codification (ASC) Topic 220, Comprehensive Income, which requires the Company to present total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amended guidance eliminates the option to present components of other comprehensive income as part of the statement of shareholders' equity. The Company is required to apply the presentation and disclosure requirements of the amended guidance retrospectively. The adoption of this amended guidance in the current quarter changed the financial statement presentation and required expanded disclosures in the Company's consolidated financial statements but did not impact financial results.

Reclassifications

The prior year consolidated cash flows reflect changes made to the consolidated balance sheet presentation where trade receivables and trade payables are shown separately from other receivables and other payables, respectively, with no impact to total cash provided by (used in) operating, investing, or financing activities.

Last-in, First-out (LIFO) Inventories

Interim period LIFO calculations are based on interim period costs and management's estimates of year-end inventory levels. Because the availability and price of agricultural commodity-based LIFO inventories are unpredictable due to factors such as weather, government farm programs and policies, and changes in global demand, quantities of LIFO-based inventories at interim periods may vary significantly from management's estimates of year-end inventory levels.

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## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 2. 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, 2012 and June 30, 2012.

	Fair Value Measurements at September 30, 2012			
	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	\$ -	\$ 5,653	\$ 1,755	\$ 7,408
Unrealized derivative gains:				
Commodity contracts	1,393	1,697	282	3,372
Foreign exchange contracts	-	222	-	222
Interest contracts	-	1	-	1
Marketable securities	2,064	11	-	2,075
Deferred consideration	-	894	-	894
Total Assets	\$ 3,457	\$ 8,478	\$ 2,037	\$ 13,972
Liabilities:				
Unrealized derivative losses:				
Commodity contracts	\$ 1,769	\$ 917	\$ 216	\$ 2,902
Foreign exchange contracts	-	243	1	244
Other contracts	-	3	-	3
Inventory-related payables	-	539	40	579
Total Liabilities	\$ 1,769	\$ 1,702	\$ 257	\$ 3,728

## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 2. Fair Value Measurements (Continued)

	Fair Value Measurements at June 30, 2012			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In millions)			
Assets:				
Inventories carried at market	\$ -	\$ 5,297	\$ 1,462	\$ 6,759
Unrealized derivative gains:				
Commodity contracts	1,275	1,397	171	2,843
Foreign exchange contracts	-	219	-	219
Other Contracts	-	1	-	1
Marketable securities	1,666	26	-	1,692
Deferred consideration	-	629	-	629
Total Assets	\$ 2,941	\$ 7,569	\$ 1,633	\$ 12,143
Liabilities:				
Unrealized derivative losses:				
Commodity contracts	\$ 1,487	\$ 1,038	\$ 179	\$ 2,704
Foreign exchange contracts	2	289	-	291
Inventory-related payables	-	307	38	345
Total Liabilities	\$ 1,489	\$ 1,634	\$ 217	\$ 3,340

The Company determines fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Three levels are established within the fair value hierarchy that may be used to report fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 1 assets and liabilities include exchange-traded derivative contracts, U.S. treasury securities, and certain publicly-traded equity securities.

Level 2: Observable inputs, including Level 1 prices that have been adjusted; quoted prices for similar assets or liabilities; quoted prices in markets that are less active than traded exchanges; and other inputs that are observable or can be substantially corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are a significant component of the fair value of the assets or liabilities. In evaluating the significance of fair value inputs, the Company generally classifies assets or liabilities as Level 3 when their fair value is determined using unobservable inputs that individually or when aggregated with other unobservable inputs, represent more than 10% of the fair value of the assets or liabilities. Judgment is required in evaluating both quantitative and qualitative factors in the determination of significance for purposes of fair value level classification. Level 3 amounts can include assets and liabilities whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as assets

and liabilities for which the determination of fair value requires significant management judgment or estimation.

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Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

Note 2. Fair Value Measurements (Continued)

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of input that is a significant component of the fair value measurement determines the placement of the entire fair value measurement in the hierarchy. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the classification of fair value assets and liabilities within the fair value hierarchy levels.

The Company's policy regarding the timing of transfers between levels, including both transfers into and transfers out of Level 3, is to measure and record the transfers at the end of the reporting period. For the period ended September 30, 2012, the Company had no transfers between Levels 1 and 2. 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.

The Company uses the market approach valuation technique to measure the majority of its assets and liabilities carried at fair value. Estimated fair values for inventories carried at market are based on exchange-quoted prices, adjusted for differences in local markets, broker or dealer quotations or market transactions in either listed or over-the-counter (OTC) markets. Market valuations for the Company's inventories are adjusted for location and quality because the exchange-quoted prices represent contracts that have standardized terms for commodity, quantity, future delivery period, delivery location, and commodity quality or grade. Generally, the valuations are based on price information that is observable by market participants, or rely only on insignificant unobservable information. In such cases, the inventory is classified in Level 2. Certain inventories may require management judgment or estimation for a significant component of the fair value amount. For these inventories, the availability of sufficient third-party information is limited. In such cases, the inventory is classified as 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.

The Company's derivative contracts are measured at fair value and include forward commodity purchase and sale contracts, exchange-traded commodity futures and option contracts, and OTC instruments related primarily to agricultural commodities, ocean freight, 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 the fair value tables. Fair value for forward commodity purchase and sale contracts is estimated based on exchange-quoted prices adjusted for differences in local markets. These differences are generally determined using inputs from broker or dealer quotations or market transactions in either the listed or OTC markets. 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 on the measurement of fair value, the contract is classified in Level 3. Based on historical experience with the Company's suppliers and customers, the Company's own credit risk and knowledge of current market conditions, the Company does not view nonperformance risk to be a significant input to fair value for the majority of its forward commodity purchase and sale contracts. However, in certain cases, if the Company believes the nonperformance risk to be a significant input, the Company records estimated fair value adjustments, and classifies the contract 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 net sales and other operating income, cost of products sold, and other (income)

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## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 2. Fair Value Measurements (Continued)

expense-net. The effective portions of changes in the fair value of derivatives designated as 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 marketable securities are comprised of U.S. Treasury securities, obligations of U.S. government agencies, corporate and municipal debt securities, and equity investments. U.S. Treasury securities and certain publicly-traded equity investments are valued using quoted market prices and are classified in Level 1. U.S. government agency obligations, corporate and municipal debt securities, and certain equity investments are valued using third-party pricing services and substantially all are classified in Level 2. Security values that are determined using pricing models are classified in Level 3. Unrealized changes in the fair value of available-for-sale marketable securities are recognized in the consolidated balance sheets as a component of AOCI unless a decline in value is deemed to be other-than-temporary at which point the decline is recorded in earnings.

The Company has deferred consideration under its accounts receivable securitization program (the "Program") which represents a note receivable from the purchasers under the Program. This amount is reflected in other current assets on the consolidated balance sheet (see Note 11). The Company carries the deferred 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 consideration is not subject to significant risks other than delinquencies and credit losses on accounts receivable transferred under the program which have historically been insignificant.

The following tables present a rollforward of the activity of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended September 30, 2012 and 2011.

	Level 3 Fair Value Assets Measurements at September 30, 2012		
	Inventories Carried at Market	Commodity Derivative Contracts Gains (In millions)	Total Assets
Balance, June 30, 2012	\$ 1,462	\$ 171	\$ 1,633
Total increase (decrease) in unrealized gains included in cost of products sold	164	109	273
Purchases	2,390	-	2,390
Sales	(2,225 )	-	(2,225 )
Settlements	-	(95 )	(95 )
Transfers into Level 3	157	128	285
Transfers out of Level 3	(193 )	(31 )	(224 )
Ending balance, September 30, 2012	\$ 1,755	\$ 282	\$ 2,037



## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 2. Fair Value Measurements (Continued)

	Level 3 Fair Value Liability Measurements at September 30, 2012		
	Inventory- related Payables	Commodity Derivative Contracts Losses (In millions)	Total Liabilities
Balance, June 30, 2012	\$ 38	\$ 179	\$ 217
Total increase (decrease) in unrealized losses included in cost of products sold	-	86	86
Purchases	2	-	2
Sales	-	-	-
Settlements	-	(105 )	(105 )
Transfers into Level 3	-	73	73
Transfers out of Level 3	-	(16 )	(16 )
Ending balance, September 30, 2012	\$ 40	\$ 217	\$ 257

	Level 3 Fair Value Asset Measurements at September 30, 2011		
	Inventories carried at Market	Commodity Derivative Contracts Gains (In millions)	Total Assets
Balance, June 30, 2011	\$ 762	\$ 112	\$ 874
Total increase (decrease) in unrealized gains included in cost of products sold	(46 )	197	151
Purchases	136	4	140
Sales	(261 )	-	(261 )
Settlements	-	(59 )	(59 )
Transfers into Level 3	767	50	817
Transfers out of Level 3	(10 )	(34 )	(44 )
Ending balance, September 30, 2011	\$ 1,348	\$ 270	\$ 1,618



## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 2. Fair Value Measurements (Continued)

	Level 3 Fair Value Liability Measurements at September 30, 2011		
	Inventory- related Payables	Commodity Derivative Contracts Losses (In millions)	Total Liabilities
Balance, June 30, 2011	\$ 45	\$ 44	\$ 89
Total increase (decrease) in unrealized losses included in cost of products sold	-	170	170
Purchases	(6 )	1	(5 )
Sales	2	-	2
Settlements	-	19	19
Transfers into Level 3	93	15	108
Transfers out of Level 3	-	(5 )	(5 )
Ending balance, September 30, 2011	\$ 134	\$ 244	\$ 378

Fair values for inventories and commodity purchase and sale contracts are generally estimated based on observable, exchange-quoted futures prices adjusted as needed to arrive at prices in local markets. Exchange-quoted futures prices represent quotes for contracts that have standardized terms for commodity, quantity, future delivery period, delivery location, and commodity quality or grade. In some cases, the price components that result in differences between the exchange-traded prices and the local prices 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 will be 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 will also impact the movement of these unobservable price components.

## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 2. Fair Value Measurements (Continued)

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, 2012 and June 30, 2012. 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 as of September 30, 2012, the unobservable component is a weighted average 14.8% of the total price for assets and 4.0% for liabilities.

Component Type	Weighted Average % of Total Price							
	September 30, 2012				June 30, 2012			
	Assets		Liabilities		Assets		Liabilities	
Inventories								
Basis	14.8	%	4.0	%	8.8	%	2.3	%
Transportation cost	10.7	%	7.4	%	8.5	%	7.9	%
Commodity Derivative Contracts								
Basis	18.4	%	19.0	%	12.6	%	11.8	%
Transportation cost	8.6	%	14.9	%	12.6	%	14.0	%

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, the Company considers these price quotes as 100 percent unobservable and, therefore, the fair value of these items is reported in Level 3.

## Note 3. Derivative Instruments and Hedging Activities

The Company recognizes all of its derivative instruments as either assets or liabilities at fair value in its consolidated balance sheet. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. The majority of the Company's derivatives have not been designated as hedging instruments. For those derivative instruments that are designated and qualify as hedging instruments, a reporting entity must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, a cash flow hedge, or a hedge of a net investment in a foreign operation. As of September 30, 2012 and June 30, 2012, the Company has certain derivatives designated as cash flow hedges. Within the Note 3 tables, zeros represent minimal amounts.

## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 3. Derivative Instruments and Hedging Activities (Continued)

## Derivatives Not Designated as Hedging Instruments

The Company generally follows a policy of using exchange-traded futures and exchange-traded and OTC options contracts to manage its net position of merchandisable agricultural commodity 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. Exchange-traded futures and exchange-traded and OTC options contracts, and forward cash purchase and sales contracts of certain merchandisable agricultural commodities accounted for as derivatives are stated at fair value. Unrealized gains and unrealized losses on forward cash purchase contracts, forward foreign currency exchange (FX) contracts, forward cash sales contracts, and exchange-traded and OTC options contracts represent the fair value of such instruments and are classified on the Company's consolidated balance sheets as other current assets and accrued expenses and other payables, respectively.

As of September 30, 2012, the Company held an economic interest in 4.7% of GrainCorp Limited ("GrainCorp") shares through two transactions with investment bank counterparties. The purpose of these transactions was to facilitate the Company's planned acquisition of GrainCorp (see Note 14 for more information). One of the transactions is accounted for as an unfunded derivative instrument. The other transaction is a hybrid financial instrument, as defined by applicable accounting standards, whereby the accounting rules require the Company to account for a funded host instrument and a separate embedded derivative instrument. The funded amount on these transactions at September 30, 2012 is reported on the consolidated balance sheet in other current assets. The company is required to measure these derivatives at fair value, which was based on GrainCorp's stock price as traded on the Australia Stock Exchange. These derivatives are reported as "Other Contracts" in the tables below.

The following table sets forth the fair value of derivatives not designated as hedging instruments as of September 30, 2012 and June 30, 2012.

	September 30, 2012		June 30, 2012	
	Assets	Liabilities	Assets	Liabilities
	(In millions)		(In millions)	
FX Contracts	\$ 222	\$ 244	\$ 219	\$ 291
Interest Contracts	1	-	-	-
Commodity Contracts	3,370	2,901	2,843	2,704
Other Contracts	-	3	1	-
Total	\$ 3,593	\$ 3,148	\$ 3,063	\$ 2,995

## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 3. Derivative Instruments and Hedging Activities (Continued)

The following table sets 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 months ended September 30, 2012 and 2011.

	Three months ended September 30,	
	2012	2011
	(In millions)	
Interest Contracts		
Interest expense	\$ 0	\$ 0
FX Contracts		
Net sales and other operating income	\$ 51	\$ 16
Cost of products sold	4	(134 )
Other income (expense) - net	(76 )	(6 )
Commodity Contracts		
Cost of products sold	\$ (436 )	\$ 620
Other Contracts		
Other income (expense) - net	\$ (4 )	\$ -
Total gain (loss) recognized in earnings	\$ (461 )	\$ 496

Inventories of certain merchandisable agricultural commodities, which include amounts acquired under deferred pricing contracts, are stated at market value. Inventory is not a derivative and therefore is not included in the tables above. Changes in the market value of inventories of certain merchandisable agricultural commodities, forward cash purchase and sales contracts, exchange-traded futures, and exchange-traded and OTC options contracts are recognized in earnings immediately.

## Derivatives Designated as Cash Flow Hedging Strategies

For derivative instruments that are designated and qualify as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of AOCI 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. The remaining gain or loss on the derivative instrument that is in excess of the cumulative change in the cash flows of the hedged item, if any (i.e., the ineffective portion), 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.



For each of the commodity 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/losses arising from the hedge are reclassified from AOCI to either net sales and other operating income, cost of products sold, interest expense or other income (expense) – net, as applicable. As of September 30, 2012, the Company has \$58 million of after-tax gains in AOCI related to gains and losses from commodity cash flow hedge transactions. The Company expects to recognize \$57 million of these after-tax gains in its consolidated statement of earnings during the next 12 months.

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Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

Note 3. Derivative Instruments and Hedging Activities (Continued)

The Company, from time to time, uses futures or options contracts to fix 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 currently grind approximately 76 million bushels of corn per month. During the past 12 months, the Company hedged between 1% and 100% of its monthly anticipated grind. At September 30, 2012, the Company has designated hedges representing between 1% to 20% of its anticipated monthly grind of corn for the next 17 months.

The Company, from time to time, also uses futures, options, and swaps to fix the purchase price of the Company's anticipated natural gas requirements for certain production facilities. The objective of this hedging program is to reduce the variability of cash flows associated with the Company's forecasted purchases of natural gas. These production facilities use approximately 3.8 million MMBtus of natural gas per month. During the past 12 months, the Company hedged between 19% and 30% of the quantity of its anticipated monthly natural gas purchases. At September 30, 2012, the Company has designated hedges representing between 8% to 49% of its anticipated monthly natural gas purchases for the next 15 months.

The Company, from time to time, also uses futures, options, and swaps to fix the sales price of certain ethanol sales contracts. The objective of this hedging program is to reduce the variability of cash flows associated with the Company's sales of ethanol under sales contracts that are indexed to unleaded gasoline prices. During the past 12 months, the Company hedged between 9 million to 21 million gallons of ethanol per month under this program. At September 30, 2012, the Company has designated hedges representing between 0.4 million to 11 million gallons of contracted ethanol sales per month over the next 4 months.

To protect against fluctuations in cash flows due to foreign currency exchange rates, the Company from time to time will use forward foreign exchange contracts as cash flow hedges. Certain production facilities have manufacturing expenses and equipment purchases denominated in non-functional currencies. To reduce the risk of fluctuations in cash flows due to changes in the exchange rate between functional versus non-functional currencies, the Company will hedge some portion of the forecasted foreign currency expenditures. During the past 12 months, the Company hedged between \$24 million to \$30 million of forecasted foreign currency expenditures. As of September 30, 2012, the Company has designated hedges of \$25 million of its forecasted foreign currency expenditures. At September 30, 2012, the Company has \$2 million of after-tax losses in AOCI related to foreign exchange contracts designated as cash flow hedging instruments. The Company will recognize all of these after-tax losses in its consolidated statement of earnings over the life of the hedged transactions.

The Company, from time to time, uses treasury-lock agreements and interest rate swaps in order to lock in the Company's interest rate prior to the issuance or remarketing of its long-term debt. Both the treasury-lock agreements and interest rate swaps were designated as cash flow hedges of the risk of changes in the future interest payments attributable to changes in the benchmark interest rate. The objective of the treasury-lock agreements and interest rate swaps was to protect the Company from changes in the benchmark rate from the date of hedge designation to the date when the debt was actually issued. At September 30, 2012, AOCI included \$22 million of after-tax gains related to treasury-lock agreements and interest rate swaps. The Company will recognize \$1 million of these after-tax gains in its consolidated statement of earnings during the next 12 months.



## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 3. Derivative Instruments and Hedging Activities (Continued)

The following tables set forth the fair value of derivatives designated as hedging instruments as of September 30, 2012 and June 30, 2012.

	September 30, 2012		June 30, 2012	
	Assets	Liabilities	Assets	Liabilities
	(In millions)		(In millions)	
Commodity Contracts	\$2	\$1	\$-	\$-
Total	\$2	\$1	\$-	\$-

The following table sets forth the pre-tax gains (losses) on derivatives designated as hedging instruments that have been included in the consolidated statement of earnings for the three months ended September 30, 2012 and 2011.

Consolidated Statement of Earnings Locations		Three months ended September 30,	
		2012	2011
		(In millions)	
Effective amounts recognized in earnings			
FX Contracts	Other income/expense – net	\$ (1 )	\$ 0
Interest Contracts	Interest expense	0	0
Commodity Contracts	Cost of products sold	89	0
	Net sales and other operating income	0	2
Ineffective amount recognized in earnings			
	Cost of products sold	(18 )	(1 )
Total amount recognized in earnings		\$ 70	\$ 1

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

Note 3. Derivative Instruments and Hedging Activities (Continued)

The following tables set forth the changes in AOCI related to derivatives gains (losses) for the three months ended September 30, 2012 and 2011.

		Three months ended September 30, 2012 (In millions)	
Balance at June 30, 2012	\$	50	
Unrealized gains		142	
Gains reclassified to earnings		(88)	)
Tax effect		(18)	)
Balance at September 30, 2012	\$	86	

		Three months ended September 30, 2011 (In millions)	
Balance at June 30, 2011	\$	29	
Unrealized gains		6	
Gains reclassified to earnings		(3)	)
Tax effect		(2)	)
Balance at September 30, 2011	\$	30	

## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 4. Marketable Securities and Cash Equivalents

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
(In millions)				
September 30, 2012				
United States government obligations				
Maturity less than 1 year	\$698	\$-	\$-	\$698
Maturity 1 to 5 years	96	1	-	97
Government-sponsored enterprise obligations				
Maturity 1 to 5 years	3	-	-	3
Corporate debt securities				
Maturity 1 to 5 years	8	-	-	8
Other debt securities				
Maturity less than 1 year	671	-	-	671
Maturity 1 to 5 years	3	-	-	3
Equity securities				
Available-for-sale	122	-	(12 )	110
Trading	25	-	-	25
	\$1,626	\$1	\$(12 )	\$1,615

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
(In millions)				
June 30, 2012				
United States government obligations				
Maturity less than 1 year	\$562	\$-	\$-	\$562
Maturity 1 to 5 years	87	1	-	88
Corporate debt securities				
Maturity 1 to 5 years	24	-	-	24
Other debt securities				
Maturity less than 1 year	385	-	-	385
Maturity 1 to 5 years	4	-	-	4
Equity securities				
Available-for-sale	124	2	(4 )	122
Trading	24	-	-	24
	\$1,210	\$3	\$(4 )	\$1,209

All of the \$12 million in unrealized losses at September 30, 2012 arose within the last 12 months and are related to the Company's investment in two securities. The market value of the available-for-sale equity securities that have been in an unrealized loss position for less than 12 months is \$108 million. The Company evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation and the Company's ability and intent to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair

value, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2012.

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## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 5. Other Current Assets

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

	September 30, 2012		June 30, 2012
		(In millions)	
Unrealized gains on derivative contracts	\$ 3,372		\$ 3,063
Deferred receivables consideration	894		629
Other current assets	3,665		2,901
	\$ 7,931		\$ 6,593

## Note 6. Accrued Expenses and Other Payables

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

	September 30, 2012		June 30, 2012
		(In millions)	
Unrealized losses on derivative contracts	\$ 2,902		\$ 2,995
Grain accounts and margin deposits	4,762		4,166
Other accruals and payables	2,278		1,206
	\$ 9,942		\$ 8,367

## Note 7. Debt and Financing Arrangements

The Company has outstanding \$1.15 billion principal amount of convertible senior notes (the Notes) due in 2014. As of September 30, 2012, none of the conditions permitting conversion of the Notes had been satisfied. Therefore, no share amounts related to the conversion of the Notes or exercise of the warrants sold in connection with the issuance of the Notes were included in diluted average shares outstanding. For further information on the Notes, refer to Note 10 "Debt and Financing Arrangements" in the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended June 30, 2012.

At September 30, 2012, the fair value of the Company's long-term debt exceeded the carrying value by \$1.6 billion, as estimated using quoted market prices (a Level 2 measurement under ASC 820).

At September 30, 2012, the Company had lines of credit totaling \$8.6 billion, of which, \$5.3 billion were unused. Of the Company's total lines of credit, \$6.3 billion support a commercial paper borrowing facility, against which there was \$2.4 billion of commercial paper outstanding at September 30, 2012.

On March 27, 2012, the Company entered into an amendment of its accounts receivable securitization program (the "Program"). The Program provides the Company with up to \$1.0 billion in funding resulting from the sale of accounts



receivable. As of September 30, 2012, the Company utilized all of its \$1.0 billion facility under the Program (see Note 11 for more information on the Program).

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Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

Note 7. Debt and Financing Arrangements (Continued)

In October 2012, the Company issued \$570 million of 4.016% Debentures due in 2043 (the New Debentures) in exchange for \$568 million of its previously issued and outstanding 5.765%, 5.935%, 6.45%, 6.625%, 6.75%, 6.95%, 7% and 7.5% debentures. The Company paid \$196 million of debt premium to certain bondholders associated with these exchanges. The discount on the New Debentures and debt premium paid to the bondholders is being amortized over the life of the New Debentures using the effective interest method.

Note 8. Income Taxes

The Company's effective income tax rate for the quarter ended September 30, 2012 was 38%, compared to 30% for the quarter ended September 30, 2011 and 30% for the full fiscal year 2012. The effective income tax rate of 38% included \$8 million of discrete tax expense, a valuation allowance for a portion of the tax benefit associated with the Gruma impairment charge (see Note 12), and income tax expense associated with foreign currency re-measurement of non-monetary assets in Brazil. Excluding these items, the effective income tax rate would have been 30%, which is comparable to the prior year rate.

The Company is subject to income taxation in many jurisdictions around the world. The Company is subject to routine examination by domestic and foreign tax authorities 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. 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. In its routine evaluations of the exposure associated with various tax filing positions, the Company recognizes a liability, when necessary, for estimated potential additional tax owed by the Company in accordance with ASC 740, Income Taxes. However, the Company cannot predict or provide assurance as to the ultimate outcome of these ongoing or future examinations.

The Company's wholly-owned subsidiary, ADM do Brasil Ltda. (ADM do Brasil), received three separate tax assessments from the Brazilian Federal Revenue Service (BFRS) challenging the tax deductibility of commodity hedging losses and related expenses for the tax years 2004, 2006 and 2007 in the amounts of \$472 million, \$19 million, and \$83 million, respectively (inclusive of interest and adjusted for variation in currency exchange rates). ADM do Brasil's tax return for 2005 was also audited and no assessment was received. The statute of limitations for 2005 has expired. If the BFRS were to challenge commodity hedging deductions in tax years after 2007, the Company estimates it could receive additional claims of approximately \$101 million (as of September 30, 2012 and subject to variation in currency exchange rates).

ADM do Brasil enters into commodity hedging transactions that can result in gains, which are included in ADM do Brasil's calculations of taxable income in Brazil, and losses, which ADM do Brasil deducts from its taxable income in Brazil. The Company has evaluated its tax position regarding these hedging transactions and concluded, based upon advice from Brazilian legal counsel, that it was appropriate to recognize both gains and losses resulting from hedging transactions when determining its Brazilian income tax expense. Therefore, the Company has continued to recognize the tax benefit from hedging losses in its financial statements and has not recorded any tax liability for the amounts assessed by the BFRS.



## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 8. Income Taxes (Continued)

ADM do Brasil filed an administrative appeal for each of the assessments. During the second quarter of fiscal 2011, a decision in favor of the BFRS on the 2004 assessment was received and a second level administrative appeal has been filed. In January of 2012, a decision in favor of the BFRS on the 2006 and 2007 assessments was received and a second level administrative appeal has been filed. If ADM do Brasil continues to be unsuccessful in the administrative appellate process, further appeals are available in the Brazilian federal courts. While the Company believes its consolidated financial statements properly reflect the tax deductibility of these hedging losses, the ultimate resolution of this matter could result in the future recognition of additional payments of, and expense for, income tax and the associated interest and penalties. The Company intends to vigorously defend its position against the current assessments and any similar assessments that may be issued for years subsequent to 2007.

The Company's subsidiaries in Argentina have received tax assessments challenging transfer prices used to price grain exports totaling \$10 million before interest for the tax years 2004 and 2005. The Argentine tax authorities have been conducting 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. ADM's subsidiaries are subject to continuous tax audits and it is possible that further assessments may be made. The Company believes that it has complied with all Argentine tax laws and intends to vigorously defend its position. The Company has not recorded a tax liability for these assessments.

## Note 9. Other (Income) Expense – Net

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

	Three Months Ended September 30, 2012                  2011 (In millions)	
Net gain on marketable securities transactions	\$(2                  )	\$(5                  )
Charges from debt buyback or exchange	-	12
Other – net	14	11
	\$12	\$18

## Note 10. Segment Information

The Company is principally engaged in procuring, transporting, storing, processing, and merchandising agricultural commodities and products. The Company's operations are organized, managed and classified into three reportable business segments: Oilseeds Processing, Corn Processing, and Agricultural Services. 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 ASC Topic 280, Segment Reporting, and are classified as Other.

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 segment operating profit is equity in earnings of affiliates based on the equity method of accounting. Certain Corporate items are not allocated to the Company's reportable business segments. Corporate results principally include the impact of LIFO inventory-related adjustments, unallocated corporate expenses, and interest cost net of investment income. Prior to January 1, 2012, Corporate results also included the after-tax elimination of income attributable to mandatorily redeemable interests in consolidated subsidiaries.

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## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 10. Segment Information (Continued)

For detailed information regarding the Company's reportable segments, see Note 18 to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended June 30, 2012.

	Three Months Ended September 30, 2012                  2011 (In millions)	
Sales to external customers		
Oilseeds Processing	\$9,688	\$9,071
Corn Processing	3,126	3,293
Agricultural Services	8,956	9,510
Other	38	28
Total	\$21,808	\$21,902
Intersegment sales		
Oilseeds Processing	\$454	\$389
Corn Processing	35	31
Agricultural Services	1,186	666
Other	41	38
Total	\$1,716	\$1,124
Net sales		
Oilseeds Processing	\$10,142	\$9,460
Corn Processing	3,161	3,324
Agricultural Services	10,142	10,176
Other	79	66
Intersegment elimination	(1,716 )	(1,124 )
Total	\$21,808	\$21,902
Segment operating profit		
Oilseeds Processing	\$336	\$220
Corn Processing	68	183
Agricultural Services	78	323
Other	16	(5 )
Total segment operating profit	498	721
Corporate	(203 )	(61 )
Earnings before income taxes	\$295	\$660



Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

Note 11. Sale of Accounts Receivable

On March 27, 2012, the Company entered into an amendment of its accounts receivable securitization program (as amended, the “Program”) with certain commercial paper conduit purchasers and committed purchasers (collectively, the “Purchasers”). Under the 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 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 \$1.0 billion and an additional amount upon the collection of the accounts receivable (deferred consideration). ADM Receivables uses the cash proceeds from the transfer of receivables to the Purchasers and other consideration 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. At September 30, 2012, 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. The Program terminates on June 28, 2013.

As of September 30, 2012, the fair value of trade receivables transferred to the Purchasers under the Program and derecognized from the Company’s consolidated balance sheet was \$1.9 billion. In exchange for the transfer, the Company received cash of \$1.0 billion and recorded a \$0.9 billion receivable for deferred consideration included in other current assets. Cash collections from customers on receivables sold were \$9.3 billion for the three months ended September 30, 2012. Of this amount, \$9.3 billion pertains to cash collections on the deferred consideration. Deferred consideration is paid to the Company in cash on behalf of the Purchasers as receivables are collected; however, as this is a revolving facility, cash collected from the Company’s customers is reinvested by the Purchasers daily in new receivable purchases under the Program.

The Company’s risk of loss following the transfer of accounts receivable under the Program is limited to the deferred consideration outstanding. The Company carries the deferred 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 ASC 820) consisting mainly of the face amount of the receivables adjusted for anticipated credit losses and discounted at the appropriate market rate. Payment of deferred consideration is not subject to significant risks other than delinquencies and credit losses on accounts receivable transferred under the program which have historically been insignificant.

Transfers of receivables under the Program during the three months ended September 30, 2012 resulted in an expense for the loss on sale of \$2 million which is classified as selling, general, and administrative expenses in the consolidated statements of earnings.

The Company reflects all cash flows related to the Program as operating activities in its consolidated statement of cash flows for the three months ended September 30, 2012 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.





Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

Note 12. Asset Impairment Charge

As part of the Company's ongoing portfolio management, the Company decided to divest its interests in Gruma S.A.B. de C.V. and related joint ventures ("Gruma"). As a result, the Company's equity method investments in Gruma were evaluated for impairment. In the quarter ended September 30, 2012, the Company recorded a \$146 million pre-tax asset impairment charge (\$0.16 per share after tax) on its investments in Gruma by comparing the carrying value, including \$123 million of cumulative unrealized foreign currency translation losses, to estimated fair value. Fair value was estimated based on negotiations which resulted in the Company entering into a non-binding letter of intent to sell its interests in Gruma to a third party on October 16, 2012. The agreement is subject to the approvals of the Company and Gruma's boards of directors and to rights of first refusals on the part of Gruma's controlling shareholder.

Note 13. Contingencies

Since August 2008, the Company has been conducting an internal review of its policies, procedures and internal controls pertaining to the adequacy of its anti-corruption compliance program and of certain transactions conducted by the Company and its affiliates and joint ventures, primarily relating to grain and feed exports, that may have violated company policies, the U.S. Foreign Corrupt Practices Act, and other U.S. and foreign laws. The Company initially disclosed this review to the U.S. Department of Justice, the Securities and Exchange Commission, and certain foreign regulators in March 2009 and has subsequently provided periodic updates to the agencies. The Company engaged outside counsel and other advisors to assist in the review of these matters and has implemented, and is continuing to implement, appropriate remedial measures. The Company has recently completed its internal review and has initiated discussions with the Department of Justice and the Securities and Exchange Commission on the resolution of this matter. In connection with this review, government agencies could impose civil penalties or criminal fines and/or order that the Company disgorge any profits derived from any contracts involving inappropriate payments. The Company has not recorded any liability for any assessments that may be imposed by the government agencies pertaining to this matter because the amount cannot be reasonably estimated. These events have not had, and are not expected to have, a material impact on the Company's business or financial condition.

Note 14. Subsequent Events

On September 20, 2012, the Company amended its U.S. qualified pension plans and began notifying certain former employees of the Company of its offer to pay those employees' pension benefit in a lump sum. Former employees eligible for the voluntary lump sum payment option are generally those who are vested traditional formula participants of the U.S. qualified pension plans who terminated employment prior to August 1, 2012 and who have not yet started receiving monthly payments of their pension benefits. The Company is offering the one-time voluntary lump sum window in an effort to reduce its long-term pension obligations and ongoing annual pension expense. The Company estimates that, depending on participation rates estimated at 50% to 75%, the voluntary lump sum payments, to be paid from plan assets, could reduce its global pension benefit obligation by approximately \$140-\$210 million and improve its pension underfunding by approximately \$35-\$55 million. The Company estimates that it will also have to incur a non-cash pre-tax charge of approximately \$45-\$65 million in the quarter ending December 31, 2012 as a result of the requirement to expense the unrealized actuarial losses currently recognized in accumulated other comprehensive income (loss) that relate to liabilities that will be settled at December 31, 2012. The Company expects ongoing pension expense to be reduced by \$4-\$5 million on an annual pre-tax basis. Actual participation rates and payout amounts will not be known until December 2012.



Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

Note 14. Subsequent Events (Continued)

On October 19, 2012, the Company announced that it had acquired a 14.9% economic interest in GrainCorp (see Note 3 for disclosure about this investment). The Company has approached GrainCorp with the aim of arriving at an agreement under which GrainCorp's Board of Directors would recommend to its shareholders a cash acquisition by the Company. Any agreement would be subject to satisfactory due diligence, regulatory approvals and other conditions. As of the date of this report, no agreement had been reached between the Company and GrainCorp.

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## 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 consolidated financial statements.

The Company is principally engaged in procuring, transporting, storing, processing, and merchandising agricultural commodities and products. The Company uses its significant global asset base to originate and transport agricultural commodities, connecting to markets in more than 160 countries. The Company also processes corn, oilseeds, wheat and cocoa into products for food, animal feed, chemical and energy uses. 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.

The Company's operations are organized, managed and classified into three reportable business segments: Oilseeds Processing, Corn Processing, and Agricultural Services. 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.

The Oilseeds Processing segment includes global activities related to the origination, merchandising, 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 Company include ingredients for the food, feed, energy, and industrial products industries. 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 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. In Europe and South America, the Oilseeds Processing segment includes origination and merchandising activities as adjuncts to its oilseeds processing assets. These activities include a network of grain elevators, port facilities, and transportation assets used to buy, store, clean, and transport grains and oilseeds. The Oilseeds Processing segment produces natural health and nutrition products and other specialty food and feed ingredients. The Oilseeds Processing segment is a major supplier of peanuts and peanut-derived ingredients to both the U.S. and export markets. In North America, cottonseed flour is produced and sold primarily to the pharmaceutical industry and cotton cellulose pulp is manufactured and sold to the chemical, paper, and filter markets. In South America, the Oilseeds Processing segment operates fertilizer blending facilities. The Oilseeds Processing segment also includes activities related to the procurement, transportation and processing of cocoa beans into cocoa liquor, cocoa butter, cocoa powder, chocolate, and various compounds in North America, South America, Europe, Asia, and Africa for the food processing industry. The Oilseeds Processing segment also includes the Company's share of the results of its equity investment in Wilmar and its share of results for its Stratas Foods LLC and Edible Oils Limited joint ventures.

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

The Company's Corn Processing segment is engaged in corn wet milling and dry milling activities, with its asset base primarily located in the central part of the United States. The Corn Processing segment converts corn into sweeteners and starches, and bioproducts. Its products include ingredients used in the food and beverage industry including sweeteners, starch, syrup, glucose, and dextrose. Dextrose and starch are used by the Corn Processing segment as feedstocks for its bioproducts operations. By fermentation of dextrose, the Corn Processing segment produces alcohol, amino acids, and other specialty 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. Bioproducts also include amino acids such as lysine and threonine that are vital compounds used in swine feeds to produce leaner animals and in poultry feeds to enhance the speed and efficiency of poultry production. 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 Corn Processing products include citric and lactic acids, lactates, sorbitol, xanthan gum, and glycols which are used in various food and industrial products. The Corn Processing segment includes the activities of a propylene and ethylene glycol facility and the Company's Brazilian sugarcane ethanol plant and related operations. This segment also includes the Company's share of the results of its equity investments in Almidones Mexicanos S.A., Eaststarch C.V., and Red Star Yeast Company LLC.

The Agricultural Services segment utilizes its extensive U.S. grain elevator, global transportation network, and port operations to buy, store, clean, and transport agricultural commodities, such as oilseeds, corn, wheat, milo, oats, rice, and barley, and resells these commodities primarily as food and feed ingredients and as raw materials for the agricultural processing industry. Agricultural Services' grain sourcing, handling, and transportation network provides reliable and efficient services to the Company's customers and agricultural processing operations. Agricultural Services' transportation network capabilities include barge, ocean-going vessel, truck, and rail freight services. The Agricultural Services segment also includes the activities related to the processing of wheat into wheat flour, the processing and distribution of formula feeds, animal health and nutrition products, and the procurement, processing, and distribution of edible beans. The Agricultural Services segment includes the activities of Alfred C. Toepfer International, an 80% owned global merchant of agricultural commodities and processed products. The Agricultural Services segment also includes the Company's share of the results of its Kalama Export Company joint venture and its equity investment in Gruma S.A.B. de C.V. ("Gruma").

Other includes the Company's remaining operations, primarily its financial business units, related principally to futures commission merchant activities and captive insurance.

Corporate results principally include the impact of LIFO-related inventory adjustments, unallocated corporate expenses, and interest cost net of investment income.

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 June 30, 2012.



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

The Company's oilseeds processing and agricultural services 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. Therefore, changes in agricultural commodity prices have relatively equal impacts on both net sales and other operating income and cost of products sold. Thus, changes in net sales and other operating income amounts do not necessarily correspond to changes in margins and gross profit of these businesses.

The Company's corn processing operations and certain other food and animal feed processing operations also utilize agricultural commodities (or products derived from agricultural commodities) as raw materials. In these operations, agricultural commodity market price changes can result in significant fluctuations in cost of products sold, and such price changes cannot necessarily be passed directly through to the selling price of the finished products.

The Company has consolidated subsidiaries in over 75 countries. For the majority of the Company's subsidiaries located outside the United States, the local currency 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, the functional currency is the U.S. dollar; however, certain transactions, including taxes, occur in local currency and require conversion to the functional currency. 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 can result in corresponding fluctuations in the U.S. dollar value of revenues and expenses reported by the Company.

The Company measures the performance of its business segments using key financial metrics such as segment operating profit, return on invested capital, and cost per metric ton. The Company's operating results can vary significantly due to changes in factors such as fluctuations in energy prices, weather conditions, crop plantings, government programs and 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 does not provide forward-looking information in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011

Net earnings attributable to controlling interests decreased \$278 million to \$182 million due to a \$223 million decrease in segment operating profit and changes in LIFO inventory valuations partially offset by lower income tax expense. Segment operating profit this quarter includes a \$146 million impairment charge related to the Company's planned divestment of its equity method investments in Gruma and Gruma-related joint ventures. LIFO inventory charges this quarter were \$53 million from the effect of increasing agricultural commodity prices on LIFO inventory valuation reserves, compared to credits of \$126 million in the first quarter of fiscal 2012 caused by decreasing agricultural commodity prices.

Income taxes decreased \$88 million due to lower earnings before income taxes partially offset by a higher effective income tax rate. The effective income tax rate of 37.6% included \$8 million of discrete tax expense, a valuation allowance for a portion of the tax benefit associated with the Gruma impairment charge, and income tax expense associated with foreign currency re-measurement of non-monetary assets in Brazil. Excluding these items, the effective income tax rate would have been 30.1%, which is comparable to the prior year rate.





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

Market Factors Influencing Operations or Results

As an agricultural commodity-based business, the Company is subject to a variety of market factors which affect the Company's operating results. From a demand perspective, protein meal demand continues to increase although at a declining rate. Demand for corn sweeteners remains solid, supported by exports. Weaker U.S. ethanol exports, stronger U.S. imports of ethanol from Brazil, and slow E15 implementation kept industry margins negative. From a supply perspective, following below-average harvests in North and South America, corn and soybean supplies are tight and commodity market prices are higher. In South America, farmers are responding to high crop prices with record soybean plantings.

Analysis of Statements of Earnings

Net sales and other operating income by segment for the quarter are as follows:

	Three Months Ended September 30,		
	2012	2011	Change
		(In millions)	
Oilseeds Processing			
Crushing and Origination	\$ 5,988	\$ 4,818	\$ 1,170
Refining, Packaging, Biodiesel and Other	2,750	3,249	(499 )
Cocoa and Other	839	925	(86 )
Asia	111	79	32
Total Oilseeds Processing	9,688	9,071	617
Corn Processing			
Sweeteners and Starches	1,206	1,184	22
Bioproducts	1,920	2,109	(189 )
Total Corn Processing	3,126	3,293	(167 )
Agricultural Services			
Merchandising and Handling	7,862	8,362	(500 )
Transportation	61	74	(13 )
Milling and Other	1,033	1,074	(41 )
Total Agricultural Services	8,956	9,510	(554 )
Other			
Financial	38	28	10
Total Other	38	28	10
Total	\$ 21,808	\$ 21,902	\$ (94 )



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

Net sales and other operating income decreased \$94 million to \$21.8 billion. Lower sales volumes reduced net sales and other operating income by \$1.0 billion while higher average selling prices increased net sales and other operating income by \$1.5 billion. Changes due to foreign currency exchange rates decreased net sales and other operating income by \$0.8 billion. Oilseeds Processing sales increased 7% to \$9.7 billion due principally to higher average selling prices of protein meal and merchandised commodities and higher sales volumes of vegetable oils and protein meal. Corn Processing sales decreased 5% to \$3.1 billion due principally to lower average selling prices of ethanol. Agricultural Services sales decreased 6% to \$9.0 billion, due to lower sales volumes partially offset by higher average selling prices.

Cost of products sold increased \$134 million to \$21.0 billion due principally to higher costs of agricultural commodities and negative impacts resulting from changes in LIFO inventory valuations partially offset by lower manufacturing costs and \$0.8 billion related to the effects of changing foreign currency rates. Manufacturing expenses decreased \$97 million, 7%, due principally to lower energy costs, repairs and maintenance cost, and employee and benefit-related costs.

Selling, general and administrative expenses decreased 4% to \$390 million due principally to lower employee and benefit-related costs partially offset by higher provisions for bad debt expense.

Asset impairment charges represent impairments of \$146 million related to the Company's planned divestment of its equity method investments in Gruma and Gruma-related joint ventures.

Interest expense decreased 6% to \$106 million primarily due to lower outstanding long term debt, higher interest costs capitalized on long-term construction projects, and lower interest expense related to uncertain income tax positions.

Interest income decreased 25% to \$30 million due principally to interest income received in the quarter ended September 30, 2011 related to a settlement of a gain contingency.

Other (income) expense – net declined \$6 million to \$12 million of income due primarily to the absence of debt buyback charges this quarter.

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

Operating profit by segment and earnings before income taxes for the quarter are as follows:

	Three Months Ended September 30,		Change
	2012	2011	
	(In millions)		
Oilseeds Processing			
Crushing and Origination	\$256	\$106	\$150
Refining, Packaging, Biodiesel, and Other	28	55	(27 )
Cocoa and Other	29	2	27
Asia	23	57	(34 )
Total Oilseeds Processing	336	220	116
Corn Processing			
Sweeteners and Starches	94	30	64
Bioproducts	(26 )	153	(179 )
Total Corn Processing	68	183	(115 )
Agricultural Services			
Merchandising and Handling	108	209	(101 )
Transportation	19	28	(9 )
Milling and Other	(49 )	86	(135 )
Total Agricultural Services	78	323	(245 )
Other			
Financial	16	(5 )	21
Total Other	16	(5 )	21
Total Segment Operating Profit	498	721	(223 )
Corporate	(203 )	(61 )	(142 )
Earnings Before Income Taxes	\$295	\$660	\$(365 )

Oilseeds Processing operating profit increased \$116 million to \$336 million. Crushing and Origination operating profit increased \$150 million to \$256 million as results in North America, Europe and South America improved. The company's U.S. soybean operations delivered strong results, with high seasonal utilization amid good U.S. demand and meal exports. In Europe, soybean and rapeseed crushing earnings improved significantly. Refining, Packaging, Biodiesel, and Other results decreased \$27 million to \$28 million with steady results in North and South American offset by weaker European biodiesel results. Cocoa and Other results increased \$27 million as weaker cocoa press margins were offset by the absence of last year's net unrealized mark-to-market losses related to certain forward purchase and sales commitments accounted for as derivatives. Asia results decreased \$34 million to \$23 million and principally reflect the Company's share of its results from equity investee, Wilmar.



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

Corn Processing operating profits decreased \$115 million to \$68 million. Sweeteners and Starches operating profit increased \$64 million to \$94 million, as tight sweetener industry capacity supported higher average selling prices. The year-ago quarter's results were negatively impacted by higher net corn costs related to the timing effects of economic hedges. Bioproducts profit in the quarter decreased \$179 million to a \$26 million loss. Weaker U.S. ethanol exports, stronger U.S. imports of ethanol from Brazil, and slow E15 implementation kept industry margins negative.

Agricultural Services operating profits, including the \$146 million Gruma asset impairment charge, decreased \$245 million to \$78 million. Merchandising and Handling earnings decreased \$101 million mostly due to weaker U.S. merchandising results impacted by the smaller U.S. harvest. Earnings from transportation operations decreased \$9 million to \$19 million due to low barge freight utilization driven by reduced corn exports from the U.S. Milling and Other operating profit decreased \$135 million to a loss of \$49 million due principally to a \$146 million impairment charge on the Company's equity method investments in Gruma and Gruma-related joint ventures. Milling results remained strong, and the Company's feed business saw improved margins amid stronger demand.

Other financial operating profit increased \$21 million to \$16 million mainly due to improved results of the Company's captive insurance subsidiary and futures commission merchant business.

Corporate results for the quarter are as follows:

	Three Months Ended September 30,			
	2012	2011		Change
	(In millions)			
LIFO credit (charge)	\$(53 )	\$126		\$(179 )
Interest expense - net	(107 )	(98 )		(9 )
Unallocated corporate costs	(70 )	(84 )		14
Charges from debt buyback and exchange	—	(4 )		4
Other	27	(1 )		28
Total Corporate	\$(203 )	\$(61 )		\$(142 )

Corporate results were a loss of \$203 million this quarter compared to a loss of \$61 million last year. The effects of changing commodity prices on LIFO inventory valuations resulted in a charge of \$53 million compared to a credit of \$126 million for the prior year quarter. Corporate interest expense - net increased \$9 million mostly due to the absence of interest income received in the prior year's quarter related to a contingent gain settlement. Unallocated corporate costs were lower primarily due to lower employee and employee benefit-related costs and administrative expenses. The increase in other income is primarily due to improved earnings from corporate investments.

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 primary source of funds to finance the Company's operations and capital expenditures is cash generated by operations and lines of credit including a commercial paper borrowing facility. 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 provided by operating activities was \$0.5 billion for the quarter compared to cash provided by operating activities of \$2.1 billion the same quarter last year. Working capital changes decreased cash in the current year by \$0.2 billion and increased cash \$1.3 billion in the prior year principally driven by changes in prices of agricultural commodities. Cash used in investing activities was \$0.6 billion for the quarter compared to a \$0.2 billion use in the same quarter last year. Capital expenditures were \$0.25 billion in the current quarter compared to \$0.44 billion in the prior year, as concerted efforts have been made to enhance the Company's capital allocation process and drive capital efficiency to improve returns. In the prior year's quarter, the Company reduced its holdings of marketable securities by a net \$0.3 billion and divested cash of \$0.1 billion as a result of deconsolidation of the Company's banking operations. In this year's quarter, the Company reinvested a net \$0.3 billion of its excess cash into marketable securities. Cash provided by financing activities was \$23 million for the quarter comprised of proceeds from net borrowings offset by dividend payments. Cash used in financing activities of \$1.1 billion the same quarter last year was primarily for repayment of debt, stock buybacks under publicly announced share repurchase programs, and dividend payments.

At September 30, 2012, the Company had \$1.7 billion of cash, cash equivalents, and short-term marketable securities and a current ratio, defined as current assets divided by current liabilities, of 1.7 to 1. Included in working capital is \$8.6 billion of readily marketable commodity inventories. At September 30, 2012, the Company's capital resources included net worth of \$18.4 billion and lines of credit totaling \$8.6 billion, of which \$5.3 billion is 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 26% at September 30, 2012 and at June 30, 2012. This ratio is a measure of the Company's long-term indebtedness and is an indicator of financial flexibility. Of the Company's total lines of credit, \$6.3 billion support a commercial paper borrowing facility, against which there was \$2.4 billion of commercial paper outstanding at September 30, 2012.

On March 27, 2012, the Company entered into an amendment of its accounts receivable securitization program (as amended, the "Program") with certain commercial paper conduit purchasers and committed purchasers (collectively, the "Purchasers"). The Program provides the Company with up to \$1.0 billion in funding against accounts receivable transferred into the Program and expands the Company's access to liquidity through efficient use of its balance sheet assets. Under the 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 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 \$1.0 billion and an additional amount upon the collection of the accounts receivable (deferred consideration). ADM Receivables uses the cash proceeds from the transfer of receivables to the Purchasers and other consideration to finance the purchase of receivables from the Company and the ADM subsidiaries originating the receivables. The Company acts as master servicer, responsible for servicing and collecting the accounts receivable under the Program. The Program



terminates on June 28, 2013 (see Note 11 for more information and disclosures on the Program). As of September 30, 2012, the fair value of trade receivables transferred to the Purchasers under the Program and derecognized from the Company's consolidated balance sheet was \$1.9 billion. In exchange for the transfer, the Company received cash of \$1.0 billion and recorded a receivable for deferred consideration included in other current assets.

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

In October 2012, the Company issued \$570 million of 4.016% Debentures due in 2043 (the New Debentures) in exchange for \$568 million of its previously issued and outstanding 5.765%, 5.935%, 6.45%, 6.625%, 6.75%, 6.95%, 7% and 7.5% debentures. The Company paid \$196 million of debt premium to certain bondholders associated with these exchanges. The discount on the New Debentures and the premiums paid to the bondholders are being amortized over the life of the New Debentures using the effective interest method.

On October 19, 2012, the Company announced that it had acquired a 14.9% economic interest in GrainCorp Limited ("GrainCorp"). The Company has approached GrainCorp with the aim of arriving at an agreement under which GrainCorp's Board of Directors would recommend to its shareholders a cash acquisition by the Company. Any agreement would be subject to satisfactory due diligence, regulatory approvals and other conditions. As of the date of this report, no agreement had been reached between the Company and GrainCorp.

### Contractual Obligations and Commercial Commitments

The Company's purchase obligations as of September 30, 2012 and June 30, 2012 were \$26.1 billion and \$18.8 billion, respectively. The increase is principally related to higher seasonal obligations to purchase additional quantities of agricultural commodity inventories and, to a lesser extent, higher prices. As of September 30, 2012, the Company expects to make payments related to purchase obligations of \$24.6 billion within the next twelve months. There were no other material changes in the Company's contractual obligations and off-balance sheet arrangements during the three months ended September 30, 2012.

### Critical Accounting Policies

There were no material changes in the Company's critical accounting policies during the three months ended September 30, 2012.

## 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, 2012 are described below. There were no material changes during the quarter 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 June 30, 2012.

### 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.



ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK  
(Continued)

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)	Three months ended September 30, 2012		Year ended June 30, 2012	
	Fair Value	Market Risk	Fair Value	Market Risk
	(In millions)			
Highest position	\$ 2,218	\$ 222	\$ 1,477	\$ 148
Lowest position	998	100	(383 )	(38 )
Average position	1,617	162	546	55

The change in fair value of the average position was principally the result of an increase in quantities underlying the daily net commodity position.

ITEM 4. CONTROLS AND PROCEDURES

As of September 30, 2012, 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 (a) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (b) 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.

## PART II – OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

Since August 2008, the Company has been conducting an internal review of its policies, procedures and internal controls pertaining to the adequacy of its anti-corruption compliance program and of certain transactions conducted by the Company and its affiliates and joint ventures, primarily relating to grain and feed exports, that may have violated company policies, the U.S. Foreign Corrupt Practices Act, and other U.S. and foreign laws. The Company initially disclosed this review to the U.S. Department of Justice, the Securities and Exchange Commission, and certain foreign regulators in March 2009 and has subsequently provided periodic updates to the agencies. The Company engaged outside counsel and other advisors to assist in the review of these matters and has implemented, and is continuing to implement, appropriate remedial measures. The Company has recently completed its internal review and has initiated discussions with the Department of Justice and the Securities Exchange Commission on the resolution of this matter. In connection with this review, government agencies could impose civil penalties or criminal fines and/or order that the Company disgorge any profits derived from any contracts involving inappropriate payments. The Company has not recorded any liability for any assessments that may be imposed by the government agencies pertaining to this matter because the amount cannot be reasonably estimated. These events have not had, and are not expected to have, a material impact on the Company's business or financial condition.

The Company is a party to routine legal proceedings that arise in the course of its business. 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

There were no significant changes in the Company's risk factors during the three months ended September 30, 2012.

## 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 Publicly Announced Program (2)	Number of Shares Remaining that May be Purchased Under the Program (2)
July 1, 2012 to July 31, 2012	3,849	\$ 29.535	218	68,399,359
August 1, 2012 to August 31, 2012	52	30.660	52	68,399,307
September 1, 2012 to September 30, 2012	200	26.405	200	68,399,107
Total	4,101	\$ 29.397	470	68,399,107

- (1) Total shares purchased represents those shares purchased 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 months ended September 30, 2012, the Company received 3,631 shares as payment for the exercise price of stock option exercises.

- (2) On November 5, 2009, the Company's Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to 100,000,000 shares of the Company's common stock during the period commencing January 1, 2010 and ending December 31, 2014.
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ITEM 6. EXHIBITS

- (3)(i) Composite Certificate of Incorporation, as amended, filed on November 13, 2001 as Exhibit 3(i) to Form 10-Q for the quarter ended September 30, 2001 (File No. 1-44), is incorporated herein by reference.
  - (ii) Bylaws, as amended, filed on August 12, 2009 as Exhibit 3(ii) to Form 8-K (File No. 1-44), are incorporated herein by reference.
  - (4)(i) Indenture, dated as of October 16, 2012, between ADM and The Bank of New York Mellon as Trustee, filed on October 17, 2012 as Exhibit 4.1 to Form 8-K (File No. 1-44), is incorporated herein by reference.
  - (4)(ii) Registration Rights Agreement, dated as of October 16, 2012, by and among ADM and Citigroup Global Markets Inc., Deutsche Bank Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Mitsubishi UFJ Securities (USA), Inc., Barclays Capital Inc., BNP Paribas Securities Corp., HSBC Securities (USA) Inc., and J.P. Morgan Securities LLC, as Dealer Managers, filed on October 17, 2012 as Exhibit 4.4 to Form 8-K (File No. 1-44), is incorporated herein by reference.
  - (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) Interactive Data File
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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  
Senior Vice President and  
Chief Financial Officer

/s/ M. I. Smith  
M. I. Smith  
Senior Vice President, Secretary and  
General Counsel

Dated: November 5, 2012