ARCHER DANIELS MIDLAND CO
Form 10-Q
November 06, 2009

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

FORM 10-Q

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

For the quarterly period ended September 30, 2009

OR

o 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	41-0129150
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)
4666 Faries Parkway Box 1470 Decatur, Illinois	62525
(Address of principal executive offices)	(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 x 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 x No ¨.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or 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 x	Accelerated Filer o
Non-accelerated Filer o	Smaller reporting Company o

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

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

Common Stock, no par value – 642,352,430 shares
(October 31, 2009)

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Archer-Daniels-Midland Company

Consolidated Statements of Earnings
(Unaudited)

	Three Months Ended September 30,	
	2009	2008 (1)
	(In millions, except per share amounts)	
Net sales and other operating income	$14,921	$21,160
Cost of products sold	13,948	19,293
Gross Profit	973	1,867
Selling, general and administrative expenses	354	409
Other income – net	(98)	(28)
Earnings Before Income Taxes	717	1,486
Income taxes	220	440
Net Earnings including Noncontrolling Interests	497	1,046
Less: Net earnings attributable to noncontrolling interests	(1)	(1)
Net Earnings Attributable to Controlling Interests	$496	$1,045
Average number of shares outstanding – basic	642	644
Average number of shares outstanding – diluted	644	645
Basic and diluted earnings per common share	$0.77	$1.62
Dividends per common share	$0.14	$0.13

See notes to consolidated financial statements.

(1) As adjusted for Accounting Standards Codification (ASC) Topics 470-20 and 810.

Archer-Daniels-Midland Company

Consolidated Balance Sheets

	(Unaudited) September 30, 2009	June 30, 2009 (1)
	(In millions)	
Assets		
Current Assets		
Cash and cash equivalents	$ 2,390	$ 1,055
Short-term marketable securities	408	500
Segregated cash and investments	2,305	2,430
Receivables	6,600	7,311
Inventories	7,139	7,782
Other assets	313	330
Total Current Assets	19,155	19,408
Investments and Other Assets		
Investments in and advances to affiliates	2,559	2,459
Long-term marketable securities	644	626
Goodwill	531	532
Other assets	606	607
Total Investments and Other Assets	4,340	4,224
Property, Plant, and Equipment		
Land	254	240
Buildings	3,381	3,304
Machinery and equipment	13,347	13,052
Construction in progress	2,524	2,245
	19,506	18,841
Accumulated depreciation	(11,140)	(10,891)
Net Property, Plant, and Equipment	8,366	7,950
Total Assets	$ 31,861	$ 31,582
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term debt	$ 254	$ 356
Accounts payable	5,812	5,786
Accrued expenses	2,431	2,695
Current maturities of long-term debt	50	48
Total Current Liabilities	8,547	8,885
Long-Term Liabilities		
Long-term debt	7,573	7,592
Deferred income taxes	316	308
Other	1,182	1,144
Total Long-Term Liabilities	9,071	9,044
Shareholders' Equity		
Common stock	5,219	5,204

Reinvested earnings		9,185		8,778
Accumulated other comprehensive income		(197)		(355)
Noncontrolling interests		36		26
Total Shareholders' Equity		14,243		13,653
Total Liabilities and Shareholders' Equity	$	31,861	$	31,582

See notes to consolidated financial statements.
(1) As adjusted for ASC Topics 470-20 and 810.

Archer-Daniels-Midland Company

Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008 (1)
	(In millions)	
Operating Activities		
Net earnings including noncontrolling interests	$497	$1,046
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation	196	177
Deferred income taxes	(3)	61
Equity in earnings of affiliates, net of dividends	(92)	(96)
Pension and postretirement accruals, net of contributions	24	(7)
Deferred cash flow hedges	31	(386)
Other – net	77	(29)
Changes in operating assets and liabilities		
Segregated cash and investments	121	(281)
Receivables	713	2,216
Inventories	735	1,353
Other assets	16	60
Accounts payable and accrued expenses	(323)	566
Total Operating Activities	1,992	4,680
Investing Activities		
Purchases of property, plant, and equipment	(497)	(483)
Proceeds from sales of property, plant, and equipment	7	32
Proceeds from sales of businesses	-	236
Net assets of businesses acquired	-	(24)
Purchases of marketable securities	(256)	(599)
Proceeds from sales of marketable securities	313	532
Other – net	4	7
Total Investing Activities	(429)	(299)
Financing Activities		
Long-term debt borrowings	-	102
Long-term debt payments	(34)	(15)
Net payments under lines of credit agreements	(107)	(2,570)
Purchases of treasury stock	-	(100)
Cash dividends	(90)	(84)
Other – net	3	8
Total Financing Activities	(228)	(2,659)
Increase in cash and cash equivalents	1,335	1,722
Cash and cash equivalents beginning of period	1,055	810

Cash and cash equivalents end of period	$2,390	$2,532

See notes to consolidated financial statements.

(1) As adjusted for ASC Topics 470-20 and 810.

Archer Daniels Midland Company

Consolidated Statement of Shareholders' Equity
(Unaudited)

	Common Stock Shares	Common Stock Amount	Reinvested Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Shareholders' Equity
			(In millions)			
Balance June 30, 2009 (1)	642	$ 5,204	$ 8,778	$ (355)	$ 26	$ 13,653
Comprehensive income						
Net earnings			496		1	
Other comprehensive income				158		
Total comprehensive income						655
Cash dividends paid-$.14 per share			(90)			(90)
Other		15	1		9	25
Balance September 30, 2009	642	$ 5,219	$ 9,185	$ (197)	$ 36	$ 14,243

See notes to consolidated financial statements.

(1) As adjusted for ASC Topics 470-20 and 810.

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, 2009 are not necessarily indicative of the results that may be expected for the year ending June 30, 2010. 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, 2009.

Subsequent Events

We have performed a review of subsequent events through the date the financial statements were filed with the Securities and Exchange Commission (SEC), and concluded there were no events or transactions occurring during this period that required recognition or disclosure in our financial statements.

Adoption of New Accounting Standards

On July 1, 2009, the Company adopted Financial Accounting Standards Board (FASB) amended guidance in Accounting Standards Codification (ASC) Topic 805, Business Combinations, which changes the financial accounting and reporting of business combination transactions. The guidance is to be applied prospectively to business combinations completed on or after the adoption date. This amended guidance requires recognizing, with certain exceptions, 100 percent of the fair values of assets acquired, liabilities assumed, and noncontrolling interests in acquisitions of less than a 100 percent controlling interest when the acquisition constitutes a change in control of the acquired entity; measuring acquirer shares issued and contingent consideration arrangements in connection with a business combination at fair value on the acquisition date with subsequent changes in fair value reflected in earnings; and expensing as incurred acquisition-related transaction costs. The amended guidance also includes requirements relating to the accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies and establishes a model to account for certain pre-acquisition contingencies. Under the amended guidance, an acquirer is required to recognize at fair value an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If the acquisition-date fair value cannot be determined, the acquirer should follow the recognition criteria in ASC Topic 450, Contingencies. The Company did not acquire any assets within the scope of ASC Topic 805 during the first quarter of fiscal 2010.

On July 1, 2009, the Company adopted the amended guidance in ASC Topic 470-20, Debt with Conversion and Other Options, which specifies that issuers of convertible debt instruments that may settle in cash upon conversion must bifurcate the proceeds from the debt issuance between the debt and equity components in a manner that reflects the entity’s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The equity component reflects the value of the conversion feature of the notes. The amended guidance requires retrospective application to all periods presented. See Note 6 for further information regarding the impact of adoption.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Basis of Presentation (Continued)

On July 1, 2009, the Company adopted amended guidance in ASC Topic 810, Consolidation, pertaining to the accounting and reporting of noncontrolling interests in financial statements. The amended guidance establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. As required by the amended guidance, the Company reclassified $26 million attributable to noncontrolling interests from other long-term liabilities to a separate component of shareholders' equity and the net earnings attributable to noncontrolling interests is now presented as a separate line item on the consolidated statements of earnings. Presentation and disclosure requirements are to be applied retrospectively for all periods presented and accordingly, the Company's consolidated financial statements have been restated for the impact of the amended guidance. In addition, the Company consolidates certain noncontrolling interests which are associated with mandatorily redeemable instruments outside of the Company's control. In accordance with guidance contained in SEC Accounting Series Release 268, Redeemable Preferred Stock and ASC Topic 480, Distinguishing Liabilities from Equity, noncontrolling interests which are associated with mandatorily redeemable instruments outside of the Company's control have not been reclassified as a separate component of shareholders' equity.

On July 1, 2009 the Company adopted the amended guidance in ASC Topic 260, Earnings per Share, which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method. It also clarifies that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders and are considered to be participating securities, thus requiring the issuing entity to apply the two-class method of computing basic and diluted EPS. There was no material effect on the Company's consolidated financial statements as a result of the adoption of this amended guidance.

On July 1, 2009, the Company adopted the guidance in ASC Topic 820, Fair Value Measurements and Disclosures, for its nonfinancial assets and liabilities that are recognized at fair value on a nonrecurring basis, including goodwill, other intangible assets, and asset retirement obligations. The Company recorded no new or remeasured fair values during the period for its nonfinancial assets and liabilities that are recognized on a nonrecurring basis.

Reclassifications

Certain items in prior year's consolidated statements of cash flows have been reclassified to conform to the current year's presentation 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.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements
(Unaudited)

Note 2. New Accounting Standards

Effective October 1, 2009, the Company will be required to adopt the amended guidance in ASC Topic 820, Fair Value Measurements and Disclosures. The first amendment permits certain entities to use Net Asset Value (NAV) as a practical expedient to estimate the fair value of investments within its scope provided the NAV is calculated as of the Company’s reporting date. The amendment also indicates how investments within its scope would be classified in the fair value hierarchy and requires enhanced disclosures about the nature and risks of investments. The disclosure requirements apply to all investments within the scope of the amendment, regardless of whether the Company elects to measure the investment using NAV as a practical expedient. The adoption of this amendment will require expanded disclosure in the notes to the Company’s consolidated financial statements but will not materially impact financial results. The second amendment provides guidance for the fair value measurement of liabilities. It clarifies that in circumstances in which a quoted price in an active market for the identical liability is not available, fair value must be measured using specified valuation techniques. It further clarifies that both (a) a quoted price in an active market for the identical liability at the measurement date, and (b) the quoted price for the identical liability when traded as an asset in an active market (such as bonds), when no adjustments to the quoted price of the asset are required, are Level 1 fair value measurements. The adoption of this amendment is not expected to have a material impact on the Company’s financial results.

Effective June 30, 2010, the Company will be required to adopt the amended guidance in ASC Topic 715, Compensation – Retirement Benefits, which expands disclosure requirements and requires entities to disclose investment policies and strategies, major categories of plan assets, fair value measurements for each major category of plan assets segregated by fair value hierarchy level as defined in ASC Topic 820, the effect of fair value measurements using Level 3 inputs on changes in plan assets for the period, and significant concentrations of risk within plan assets. The adoption of this amended guidance will require expanded disclosure in the notes to the Company’s consolidated financial statements but will not impact financial results.

Effective July 1, 2010, the Company will be required to adopt the amended guidance in ASC Topic 810, Consolidations, which will change how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting or similar rights (variable interest entities or VIEs) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity’s purpose and design and the reporting entity’s ability to direct the activities of the other entity that most significantly impact the other entity’s economic performance. This amended guidance will require a number of new disclosures including disclosures about the reporting entity’s involvement with VIEs, how its involvement with VIEs affects the reporting entity’s financial statements, and any significant changes in risk exposure due to that involvement. The Company has not yet assessed the impact of the adoption of this amended guidance on the Company’s financial statements.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements
(Unaudited)

Note 3. Fair Value Measurements

The Company determines the fair market value of certain of its inventories of agricultural commodities, derivative contracts, and marketable securities based on the fair value definition and hierarchy levels established in the guidance of ASC Topic 820, Fair Value Measurements and Disclosures. Three levels are established within the hierarchy that may be used to measure 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.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements
(Unaudited)

Note 3. Fair Value Measurements (Continued)

The following table sets forth, by level, the Company's assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2009. 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.

	Fair Value Measurements at September 30, 2009			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In millions)			
Assets:				
Inventories carried at market	$ -	$ 3,312	$ 546	$ 3,858
Unrealized gains on derivative contracts	877	888	63	1,828
Marketable securities	949	598	-	1,547
Total Assets	$ 1,826	$ 4,798	$ 609	$ 7,233
Liabilities:				
Unrealized losses on derivative contracts	$ 1,042	$ 858	$ 108	$ 2,008
Inventory-related liabilities	-	226	16	242
Total Liabilities	$ 1,042	$ 1,084	$ 124	$ 2,250

The Company uses the market approach valuation technique to measure the majority of its assets and liabilities carried at fair value. Estimated fair market 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. 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. In such cases, the inventory is classified as Level 3. Changes in the fair market value of inventories are recognized in the consolidated statements of earnings as a component of cost of products sold.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements
(Unaudited)

Note 3. Fair Value Measurements (Continued)

The Company's derivative contracts that are measured at fair value include forward commodity purchase and sale contracts, exchange-traded commodity futures and option contracts, and OTC instruments related primarily to agricultural commodities, energy, 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 this table. 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 asset or liability, the derivative contracts are classified in Level 2. When unobservable inputs have a significant impact on the measurement of fair value, the contract's fair value is classified in Level 3. Based on historical experience with the Company's suppliers and customers, the Company's own credit risk, and the Company's 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 situations when the Company believes the nonperformance risk to be a significant input, the Company records estimated fair value adjustments, and classifies the contracts in Level 3 in the fair value hierarchy. Changes in the fair market 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 market 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 – net. The effective portions of changes in the fair market value of derivatives designated as cash flow hedges are recognized in the consolidated balance sheets as a component of accumulated other comprehensive income until the hedged items are recorded in earnings.

The Company's available-for-sale 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 as Level 2. Security values that are determined using pricing models are classified in Level 3. Unrealized changes in the fair market value of available-for-sale marketable securities are recognized in the consolidated balance sheets as a component of accumulated other comprehensive income unless a decline in value is deemed to be other than temporary at which point the decline is recorded in earnings.

The Company's assessment of the significance of a particular input to a fair value measurement requires judgment and may affect the classification of assets and liabilities within the fair value hierarchy.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements
(Unaudited)

Note 3. Fair Value Measurements (Continued)

The following table presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the quarter ended September 30, 2009.

	Level 3 Fair Value Measurements		
	Inventories Carried at Market, Net	Derivative Contracts, Net (In millions)	Total
Balance, June 30, 2009	$ 468	$ (2)	$ 466
Total gains (losses), realized or unrealized, included in earnings before income taxes*	7	(30)	(23)
Purchases, issuances and settlements	(42)	(9)	(51)
Transfers in and/or out of Level 3	97	(4)	93
Ending balance, September 30, 2009	$ 530	$ (45)	$ 485

*Includes losses of $1.9 million that are attributable to the change in unrealized gains or losses relating to Level 3 assets and liabilities still held at September 30, 2009.

Note 4. Derivative Instruments and Hedging Activities

ASC Topic 815, Derivatives and Hedging, requires the Company to recognize all of its derivative instruments as either assets or liabilities in its consolidated balance sheet at fair value. 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. 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. The Company does not currently have any derivatives designated as hedges of net investment in foreign operations. The Company has certain derivatives designated as cash flow hedges and fair value hedges; however, the majority of the Company's derivatives have not been designated as hedging instruments.

Derivatives Not Designated as Hedging Instruments

To reduce price risk caused by market fluctuations in agricultural commodities and foreign currencies, the Company generally follows a policy of using exchange-traded futures and exchange-traded and OTC options contracts to minimize its net position of merchandisable agricultural commodity inventories and forward cash purchase and sales contracts. 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 volatility of the relationship between the value of exchange-traded commodities futures contracts and the cash prices 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 are valued at fair value. 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 below. Changes in the market value of inventories of merchandisable agricultural commodities, forward cash purchase and sales contracts, and exchange-traded futures and exchange-traded and OTC options contracts are recognized in earnings immediately, resulting in cost of products sold approximating first-in, first-out (FIFO) cost. 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 sheet as receivables and accrued expenses, respectively.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements
(Unaudited)

Note 4. Derivative Instruments and Hedging Activities (Continued)

The following table sets forth the fair value of derivatives not designated as hedging instruments as of September 30, 2009.

	Assets	Liabilities
	(In millions)	
FX Contracts	$ 107	$ 133
Commodity Contracts	1,714	1,870
Total	$ 1,821	$ 2,003

The following table sets forth the pre-tax gains (losses) on derivatives not designated as hedging instruments that have been included in the consolidated statement of earnings for the three months ended September 30, 2009.

	(In millions)
Interest Contracts	
Other income – net	$ 1
FX Contracts	
Net sales and other operating income	$ (15)
Cost of products sold	7
Other income - net	8
Commodity Contracts	
Cost of products sold	$ 175

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 4. Derivative Instruments and Hedging Activities (Continued)

Derivatives Designated as Cash Flow or Fair Value Hedging Strategies

For derivative instruments that are designated and qualify as fair value hedges (i.e., hedging the exposure to changes in the fair value of an asset or liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the same line item associated with the hedged item in current earnings.

The Company has entered into an interest rate swap to manage interest rate risk. The interest rate swap agreement effectively modifies the Company's exposure to changes in interest rates by converting a portion of the Company's fixed-rate debt to a floating rate. This agreement involves the receipt of fixed interest amounts in exchange for floating rate interest payments over the life of the agreement without an exchange of the underlying principal amount. The gain/loss on this fair value hedge for the three months ended September 30, 2009 was immaterial.

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 other comprehensive income (OCI) 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 will be reclassified from accumulated other comprehensive income (AOCI) to either net sales and other operating income, or cost of products sold. As of September 30, 2009, the Company has $15 million of after-tax losses in AOCI related to gains and losses from commodity cash flow hedge transactions. The Company expects to recognize all of these after-tax losses in the statement of earnings during the next 17 months. During the current period, the Company had no amounts recognized in earnings from cash flow hedges that were discontinued.

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 60 million bushels of corn per month which is expected to increase to approximately 75 million bushels per month when the Company's two new dry-grind ethanol plants in the U.S. are completed. Most of the finished goods produced from this corn grind are sold at fixed prices and many of these finished goods are unable to be hedged. The Company will fix the purchase price of the corn that will be used, thereby economically protecting the margin on these finished goods sales. During the past 12 months, the Company hedged between 37% and 95% of its monthly anticipated grind. At September 30, 2009, the Company has hedged portions of its anticipated monthly purchases of corn over the next 17 months, ranging from 1% to 37% of its anticipated monthly grind.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 4. Derivative Instruments and Hedging Activities (Continued)

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 3.5 million MMbtus of natural gas per month. During the past 12 months, the Company hedged between 18% and 65% of the quantity of its anticipated monthly natural gas purchases. At September 30, 2009, the Company has hedged portions of its anticipated monthly purchases of natural gas over the next 9 months, ranging from 39% to 77% of its anticipated monthly natural gas purchases.

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 with banks as foreign currency cash flow hedge programs. Certain production facilities have manufacturing expenses and some sales contracts denominated in non-functional currency. To reduce the risk of fluctuations in cash flows due to changes in the exchange rate between functional versus non-functional currency, the Company will hedge some portion of the forecasted foreign currency expenditures and/or receipts. The fair value of foreign exchange contracts designated as cash flow hedging instruments as of September 30, 2009 was immaterial.

At September 30, 2009, AOCI included $4 million of after-tax gains related to treasury-lock agreements and interest rate swaps. The instruments were executed in order to lock in the Company's interest rate prior to the issuance or remarketing of debentures. Both the treasury-lock agreements and interest rate swaps are 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 is to protect the Company from changes in the benchmark rate from the date the Company decided to issue the debt to the date when the debt will actually be issued. The Company will recognize the $4 million of gains in its consolidated statement of earnings over the terms of the hedged items.

The following table sets forth the fair value of derivatives designated as hedging instruments as of September 30, 2009.

	Assets	Liabilities
	(In millions)	
Interest Contracts	$ 4	$ 4
Commodity Contracts	3	1
Total	$ 7	$ 5

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, 2009.

	Consolidated Statement of Earnings Location	Amount (In millions)
FX Contracts		

Effective amount recognized in earnings	Other income – net	$(1)
Commodity Contracts		
Effective amount recognized in earnings	Cost of products sold	(42)
Ineffective amount recognized in earnings	Cost of products sold	(8)

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 4. Derivative Instruments and Hedging Activities (Continued)

The following table sets forth the changes in accumulated other comprehensive income related to derivatives gains (losses) for the period ended September 30, 2009.

	Three months ended September 30, 2009 (In millions)
Beginning balance	$ (13)
Unrealized gains (losses)	(23)
Losses reclassified to earnings	43
Tax effect	(18)
Balance at September 30, 2009	$ (11)

Note 5. Marketable Securities and Cash Equivalents

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(In millions)		
September 30, 2009				
United States government obligations				
Maturity less than 1 year	$490	$1	$(1)	$490
Maturity 1 to 5 years	29	1	-	30
Government–sponsored enterprise obligations				
Maturity 1 to 5 years	59	2	-	61
Maturity 5 to 10 years	107	1	-	108
Maturity greater than 10 years	262	7	-	269
Corporate debt securities				
Maturity less than 1 year	9	-	-	9
Maturity 1 to 5 years	33	2	-	35
Other debt securities				
Maturity less than 1 year	1,863	-	-	1,863
Maturity 5 to 10 years	6	-	-	6
Maturity greater than 10 years	15	-	(2)	13
Equity securities				
Available-for-sale	70	40	(17)	93
Trading	22	-	-	22
	$2,965	$54	$(20)	$2,999

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Marketable Securities and Cash Equivalents (Continued)

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(In millions)		
June 30, 2009				
United States government obligations				
Maturity less than 1 year	$645	$–	$–	$645
Maturity 1 to 5 years	29	1	–	30
Government–sponsored enterprise obligations				
Maturity less than 1 year	8	–	–	8
Maturity 1 to 5 years	59	2	–	61
Maturity 5 to 10 years	104	1	(1)	104
Maturity greater than 10 years	268	6	–	274
Corporate debt securities				
Maturity less than 1 year	10	–	–	10
Maturity 1 to 5 years	37	1	–	38
Other debt securities				
Maturity less than 1 year	463	–	–	463
Maturity 5 to 10 years	6	–	–	6
Maturity greater than 10 years	16	–	(3)	13
Equity securities				
Available-for-sale	69	33	(29)	73
Trading	19	–	–	19
	$1,733	$44	$(33)	$1,744

Of the $20 million in unrealized losses at September 30, 2009, $1 million arose within the last 12 months. The market value of the investments that have been in an unrealized loss position for less than 12 months and for 12 months and longer is $40 million and $42 million, respectively. The market value of United States government obligations, government-sponsored enterprise obligations, and other debt securities with unrealized losses as of September 30, 2009, is $54 million. The $3 million of unrealized losses associated with United States government obligations, government sponsored enterprise obligations and other debt securities are not considered to be other-than-temporary because the present value of expected cash flows to be collected is equivalent to or exceeds the amortized cost basis of the securities. The market value of available-for-sale equity securities with unrealized losses as of September 30, 2009, is $28 million. All of the $17 million in unrealized losses associated with available-for-sale equity securities is related to the Company's investment in one security. The Company does not intend to sell any of its impaired debt and equity securities, and, based upon its evaluation, the Company does not believe it is likely that the Company will be required to sell the investments before recovery of their amortized cost bases which is expected in the foreseeable future.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 6. 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, 2009, 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.

On July 1, 2009, the Company began accounting for the Notes in accordance with the amended guidance in ASC Topic 470-20, Debt with Conversion and Other Options, pertaining to convertible debt instruments with cash settlement features. The amendment addresses the accounting for convertible debt securities that, upon conversion, may be settled by the issuer fully or partially in cash. Previously, most forms of convertible debt securities were treated solely as debt. Under the new guidance, issuers of convertible debt securities within its scope must separate these securities into two accounting components; a debt component, representing the issuer's contractual obligation to pay principal and interest; and an equity component, representing the holder's option to convert the debt security into equity of the issuer or, if the issuer so elects, an equivalent amount of cash.

The amended guidance required retrospective application to all periods presented. The following tables reflect the Company's previously reported amounts, along with adjustments required by the amended guidance:

Consolidated Statement of Earnings Impact

	Three Months Ended September 30, 2008		
	As Originally Reported	Adjustment due to Topic 470-20	As Adjusted
	(In millions, except per share amounts)		
Interest expense reported in Other income – net	$ 129	$ 9	$ 138
Income taxes	444	(4)	440
Basic and diluted earnings per common share	1.63	(0.01)	1.62

Consolidated Balance Sheet Impact

June 30, 2009