

ARCHER DANIELS MIDLAND CO
Form 10-Q
May 09, 2007

**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 March 31, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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 issuer's classes of common stock, as of the latest practicable date.

Common Stock, no par value - xxx,xxx,xxx shares
(April 30, 2007)

PART I - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)****Archer-Daniels-Midland Company****THREE MONTHS ENDED
MARCH 31,****2007 2006**(In thousands, except
per share amounts)

Net sales and other operating income	\$	11,381,150	\$	9,122,841
Cost of products sold		10,635,240		8,352,109
Gross Profit		745,910		770,732
Selling, general and administrative expenses		294,037		297,295
Other (income) expense - net		(104,331)		(19,526)
Earnings Before Income Taxes		556,204		492,963
Income taxes		193,313		145,167
Net Earnings	\$	362,891	\$	347,796
Average number of shares outstanding - basic		648,737		653,995
Average number of shares outstanding - diluted		653,177		657,130
Basic and diluted earnings per common share	\$.56	\$.53
Dividends per common share	\$.115	\$.10

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

Archer-Daniels-Midland Company

NINE MONTHS ENDED
MARCH 31,

2007 **2006**

(In thousands, except
per share amounts)

Net sales and other operating income	\$	31,804,111	\$	27,048,775
Cost of products sold		29,284,703		24,911,864
Gross Profit		2,519,408		2,136,911
Selling, general and administrative expenses		902,083		896,142
Other (income) expense - net		(142,859)		(32,630)
Earnings Before Income Taxes		1,760,184		1,273,399
Income taxes		553,280		371,588
Net Earnings	\$	1,206,904	\$	901,811
Average number of shares outstanding - basic		654,000		653,063
Average number of shares outstanding - diluted		658,232		655,469
Basic earnings per common share	\$	1.85	\$	1.38
Diluted earnings per common share	\$	1.83	\$	1.38
Dividends per common share	\$.315	\$.27

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Archer-Daniels-Midland Company

	(Unaudited)	
	MARCH	
	31,	JUNE 30,
	2007	2006
	(In thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 896,526	\$ 1,112,853
Segregated cash and investments	1,402,389	1,220,666
Receivables	5,805,087	4,471,201
Inventories	6,603,449	4,677,508
Other assets	535,907	344,049
Total Current Assets	15,243,358	11,826,277
Investments and Other Assets		
Investments in and advances to affiliates	2,050,740	1,985,662
Long-term marketable securities	1,175,227	1,110,177
Goodwill	320,322	322,292
Other assets	738,810	731,590
	4,285,099	4,149,721
Property, Plant, and Equipment		
Land	221,289	214,091
Buildings	2,901,919	2,774,164
Machinery and equipment	11,728,837	11,131,992
Construction in progress	744,790	430,997
	15,596,835	14,551,244
Accumulated depreciation	(9,773,876)	(9,258,212)
	5,822,959	5,293,032
	\$ 25,351,416	\$ 21,269,030

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS**Archer-Daniels-Midland Company**

	(Unaudited)	
	MARCH	
	31,	JUNE 30,
	2007	2006
	(In thousands)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term debt	\$ 1,142,765	\$ 549,419
Accounts payable	4,872,322	4,014,392
Accrued expenses	2,214,593	1,521,188
Current maturities of long-term debt	71,876	79,768
Total Current Liabilities	8,301,556	6,164,767
Long-Term Liabilities		
Long-term debt	5,157,271	4,050,323
Deferred income taxes	676,650	756,600
Other	536,590	490,460
	6,370,511	5,297,383
Shareholders' Equity		
Common stock	5,067,901	5,511,019
Reinvested earnings	5,088,222	4,081,490
Accumulated other comprehensive income	523,226	214,371
	10,679,349	9,806,880
	\$ 25,351,416	\$ 21,269,030

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

Archer-Daniels-Midland Company

NINE MONTHS ENDED
MARCH 31,

2007 **2006**

(In thousands)

Operating Activities			
Net earnings	\$	1,206,904	\$ 901,811
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities			
Depreciation		519,776	490,780
Asset abandonments		1,393	27,013
Deferred income taxes		9,279	(93,951)
Gain on marketable securities transactions		(24,244)	(27,952)
Equity in earnings of affiliates, net of dividends		(137,252)	(32,331)
Stock contributed to employee benefit plans		20,135	18,652
Pension and postretirement accruals (contributions), net		34,601	(164,519)
Other - net		101,495	31,401
Changes in operating assets and liabilities			
Segregated cash and investments		(172,530)	(236,627)
Receivables		(544,181)	(266,137)
Inventories		(1,918,254)	(519,857)
Other assets		(69,283)	(41,852)
Accounts payable and accrued expenses		937,866	813,249
Total Operating Activities		(34,295)	899,680
Investing Activities			
Purchases of property, plant, and equipment		(843,592)	(533,494)
Proceeds from sales of property, plant, and equipment		25,915	42,025
Net assets of businesses acquired		(92,372)	(168,520)
Investments in and advances to affiliates		(49,737)	(111,426)
Distributions from affiliates, excluding dividends		85,310	51,158
Purchases of marketable securities		(659,117)	(636,896)
Proceeds from sales of marketable securities		576,450	491,702
Other - net		6,704	(18,856)
Total Investing Activities		(950,439)	(884,307)
Financing Activities			
Long-term debt borrowings		1,165,633	603,874
Long-term debt payments		(131,360)	(262,042)
Net borrowings under line of credit agreements		570,315	196,982
Purchases of treasury stock		(532,851)	(74)
Sale of stock warrants		170,085	
Purchase of call options		(299,460)	
Cash dividends		(206,543)	(176,433)
Other - net		32,588	18,128
Total Financing Activities		768,407	380,435

Increase (decrease) in cash and cash equivalents	(216,327)	395,808
Cash and cash equivalents at beginning of period	1,112,853	522,420
Cash and cash equivalents at end of period	\$ 896,526	\$ 918,228

See notes to consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

Archer-Daniels-Midland Company

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 and nine months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending June 30, 2007. 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, 2006.

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.

Subsequent Event

During April 2007, the Company sold equity securities of Tyson Foods Inc. and Overseas Shipholding Group Inc. held at March 31, 2007 and received cash proceeds of \$556 million and recognized an after tax gain of \$220 million, or \$0.34 per share.

Note 2. New Accounting Standards

During July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation Number 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing the minimum requirements a tax position must meet before being recognized in the financial statements. In addition, FIN 48 prohibits the use of Statement of Financial Accounting Standards (SFAS) Number 5, *Accounting for Contingencies*, in evaluating the recognition and measurement of uncertain tax positions. The Company will be required to adopt FIN 48 on July 1, 2007, and is in the process of assessing the impact of the adoption of this standard on the Company's financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Archer-Daniels-Midland Company

Note 2. New Accounting Standards (Continued)

During September 2006, the FASB issued SFAS Number 157, *Fair Value Measurements*. SFAS Number 157 establishes a framework for measuring fair value within generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. SFAS Number 157 does not require any new fair value measurements in generally accepted accounting principles. However, the definition of fair value in SFAS Number 157 may affect assumptions used by companies in determining fair value. The Company will be required to adopt SFAS Number 157 on July 1, 2008. The Company has not completed its evaluation of the impact of adopting SFAS Number 157 on the Company's financial statements, but currently believes the impact of the adoption of SFAS Number 157 will not require material modification of the Company's fair value measurements and will be substantially limited to expanded disclosures in the notes to the Company's consolidated financial statements.

During September 2006, the FASB issued SFAS Number 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its balance sheet and to recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the changes occur. SFAS Number 158 also requires companies to measure the funded status of defined benefit postretirement plans as of the end of the fiscal year instead of a date up to three months prior to the end of the fiscal year. Pursuant to SFAS Number 158, the Company will be required to recognize the funded status of its defined benefit postretirement plans in its consolidated balance sheet as of June 30, 2007. The Company will be required to adopt the measurement date provisions of SFAS Number 158 on June 30, 2009. Had the Company recognized the overfunded and underfunded status of its defined benefit postretirement plans as of June 30, 2006, other long-term assets, deferred income taxes, and accumulated other comprehensive income would have been reduced \$230 million, \$120 million, and \$197 million, respectively, while other long-term liabilities would have increased by \$87 million.

During February 2007, the FASB issued SFAS Number 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS Number 159 allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, SFAS Number 159 specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. The Company will be required to adopt SFAS No. 159 on July 1, 2008 and has not yet assessed the impact of the adoption of this standard on the Company's financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Archer-Daniels-Midland Company

Note 3. Long-Term Debt

In February 2007, the Company issued \$1.2 billion principal amount of convertible senior notes due in 2014 (the Notes) in a private placement. The Notes were issued at par and bear interest at a rate of 0.875% per year, payable semiannually. The Notes may be convertible based on an initial conversion rate of 22.8343 shares per \$1,000 principal amount of Notes (which is equal to an initial conversion price of approximately \$43.79 per share). The Notes may be converted, subject to adjustment, only under the following circumstances: 1) during any calendar quarter beginning after March 31, 2007, if the closing price of the Company's common stock for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the immediately preceding quarter is more than 140% of the applicable conversion price per share, which is \$1,000 divided by the then applicable conversion rate, 2) during the five consecutive business day period immediately after any five consecutive trading day period (the note measurement period) in which the average of the trading price per \$1,000 principal amount of Notes was equal to or less than 98% of the average product of the closing price of the Company's common stock and the conversion rate of each date during the note measurement period, 3) if the Company makes specified distributions to its common stockholders or specified corporate transactions occur, or 4) at any time on or after January 15, 2014, through the business day preceding the maturity date. Upon conversion, a holder would receive an amount in cash equal to the lesser of 1) \$1,000 and 2) the conversion value, as defined. If the conversion value exceeds \$1,000, the Company will deliver, at the Company's election, cash or common stock or a combination of cash and common stock for the conversion value in excess of \$1,000. If the Notes are converted in connection with a change in control, as defined, the Company may be required to provide a make-whole premium in the form of an increase in the conversion rate, subject to a stated maximum amount. In addition, in the event of a change in control, the holders may require the Company to purchase all or a portion of their Notes at a purchase price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest, if any.

Concurrent with the issuance of the Notes, the Company purchased call options in private transactions at a cost of \$299 million. The purchased call options allow the Company to receive shares of its common stock and/or cash from the counterparties equal to the amounts of common stock and/or cash related to the excess of the current market price of the Company's common stock over the exercise price of the purchased call options. In addition, the Company sold warrants in private transactions to acquire, subject to customary anti-dilution adjustments, 26.3 million shares of its common stock at an exercise price of \$62.56 per share and received proceeds of \$170 million. If the average price of the Company's common stock during a defined period ending on or about the respective settlement dates exceeds the exercise price of the warrants, the warrants will be settled, at the Company's option, in cash or shares of common stock. The purchased call options and warrants are intended to reduce the potential dilution upon future conversions of the Notes by effectively increasing the initial conversion price to \$62.56 per share. The net cost of the purchased call options and warrant transactions of \$129 million is recorded as a reduction of stockholder's equity. The Company has also recorded a \$114 million increase in stockholder's equity for the deferred tax assets recognized related to the purchased call options.

As of March 31, 2007, none of the conditions permitting conversion of the Notes had been satisfied. In addition, as of March 31, 2007, the market price of the Company's common stock was not greater than the exercise price of the purchased call options or warrants.

Upon closing of the sale of the Notes, \$370 million of the net proceeds from the Note issuance and the proceeds from the warrant transactions were used to repurchase 10.3 million shares of the Company's common stock under the Company's stock repurchase program.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Archer-Daniels-Midland Company

Note 4. Comprehensive Income

The components of comprehensive income, net of related tax, are as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MARCH 31,		MARCH 31,	
	2007	2006	2007	2006
	(In thousands)			
Net earnings	\$ 362,891	\$ 347,796	\$ 1,206,904	\$ 901,811
Net change in unrealized gain (loss) on investments	46,198	(13,700)	61,265	(72,142)
Deferred gain (loss) on hedging activities	(77,599)	(16,410)	49,545	8,350
Minimum pension liability adjustment	(3,792)	(936)	(4,115)	(553)
Foreign currency translation adjustment	37,273	35,879	202,160	(3,826)
Comprehensive income	\$ 364,971	\$ 352,629	\$ 1,515,759	\$ 833,640

Note 5. Other (Income) Expense - Net

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MARCH 31,		MARCH 31,	
	2007	2006	2007	2006
	(In thousands)			
Interest expense	\$ 115,467	\$ 90,446	\$ 323,589	\$ 263,344
Investment income	(66,352)	(48,295)	(191,683)	(146,143)
Net (gain) loss on marketable securities transactions	(13,484)	282	(24,244)	(27,952)
Equity in earnings of affiliates	(84,975)	(54,930)	(207,576)	(113,604)
Other - net	(54,987)	(7,029)	(42,945)	(8,275)
	\$ (104,331)	\$ (19,526)	\$ (142,859)	\$ (32,630)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Archer-Daniels-Midland Company

Note 6. Retirement Plan Expense

The Company provides substantially all domestic employees and employees at certain international subsidiaries with pension benefits. The Company also provides substantially all domestic salaried employees with postretirement health care and life insurance benefits. Retirement plan expense for these pension and postretirement benefits for the quarter and nine months ended March 31, 2007 and 2006 is as follows:

	Pension Benefits			
	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MARCH 31,		MARCH 31,	
	2007	2006	2007	2006
	(In thousands)			
Service cost (benefits earned during the period)	\$ 15,358	\$ 13,465	\$ 46,074	\$ 51,714
Interest cost	23,101	19,405	69,301	62,262
Expected return on plan assets	(25,303)	(17,756)	(75,909)	(57,907)
Actuarial loss	4,858	8,054	14,574	25,552
Net amortization	1,561	1,313	4,683	3,923
Net periodic defined benefit plan expense	\$ 19,575	\$ 24,481	\$ 58,723	\$ 85,544

	Postretirement Benefits			
	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MARCH 31,		MARCH 31,	
	2007	2006	2007	2006
	(In thousands)			
Service cost (benefits earned during the period)	\$ 1,757	\$ 1,665	\$ 5,269	\$ 4,995
Interest cost	2,435	2,130	7,305	6,392
Actuarial loss	158	107	476	321
Net amortization	(279)	(279)	(837)	(837)
Net periodic defined benefit plan expense	\$ 4,071	\$ 3,623	\$ 12,213	\$ 10,871

Note 7. Guarantees

The Company has entered into debt guarantee agreements, primarily related to equity-method investees, which could obligate the Company to make future payments if the primary entity fails to perform its contractual obligation. The Company has not recorded a liability for these contingent obligations, as the Company believes the fair value of these contingent obligations is immaterial. The Company has collateral for a portion of these contingent obligations. These contingent obligations totaled \$141 million at March 31, 2007. Outstanding borrowings under these contingent obligations were \$112 million at March 31, 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Archer-Daniels-Midland Company

Note 8. Segment Information

The Company is principally engaged in procuring, transporting, storing, processing, and merchandising agricultural commodities and products. The Company's operations are 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 aggregated and classified as Other.

The Oilseeds Processing segment includes activities related to processing oilseeds such as soybeans, cottonseed, sunflower seeds, canola, peanuts, and flaxseed into vegetable oils and meals principally for the food and feed industries. In addition, oilseeds may be resold into the marketplace as a raw material for other processors. Crude vegetable oil is sold "as is" or is further processed by refining, bleaching, and deodorizing into salad oils. Salad oils can be further processed by hydrogenating and/or interesterifying into margarine, shortening, and other food products. Partially refined oil is sold for use in chemicals, paints, and other industrial products. Refined oil can be further processed for use in the production of biodiesel. Oilseed meals are primary ingredients used in the manufacture of commercial livestock and poultry feeds.

The Corn Processing segment includes activities related to the production of sweeteners, starches, dextrose, and syrups for the food and beverage industry as well as activities related to the production, by fermentation, of bioproducts such as alcohol, amino acids, and other specialty food and feed ingredients.

The Agricultural Services segment utilizes the Company's extensive grain elevator and transportation network to buy, store, clean, and transport agricultural commodities, such as oilseeds, corn, wheat, milo, oats, and barley, and resells these commodities primarily as feed ingredients and as raw materials for the agricultural processing industry. Agricultural Services' grain sourcing and transportation network provides reliable and efficient services to the Company's agricultural processing operations. Also included in Agricultural Services are the activities of A.C. Toepfer International, a global merchandiser of agricultural commodities and processed products.

Other includes the Company's remaining operations, consisting principally of food and feed ingredient businesses, industrial businesses, and financial activities. Food and feed ingredient businesses include Wheat Processing with activities related to the production of wheat flour; Cocoa Processing with activities related to the production of chocolate and cocoa products; the production of natural health and nutrition products; and the production of other specialty food and feed ingredients. Financial activities include banking, captive insurance, private equity fund investments, and futures commission merchant activities.

Intersegment sales have been recorded at amounts approximating market. Operating profit for each segment is based on net sales less identifiable operating expenses, including an interest charge related to working capital usage. Also included in operating profit are the related equity in earnings of affiliates based on the equity method of accounting. General corporate expenses, investment income, unallocated interest expense, marketable securities transactions, and FIFO to LIFO inventory adjustments have been excluded from segment operations and classified as Corporate.

For detailed information regarding the Company's reportable segments, see Note 13 to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended June 30, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Archer-Daniels-Midland Company

Note 8. Segment Information (Continued)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MARCH 31,		MARCH 31,	
	2007	2006	2007	2006
	(In thousands)			
Sales to external customers				
Oilseeds Processing	\$ 3,219,289	\$ 2,808,375	\$ 9,802,528	\$ 8,730,503
Corn Processing	1,400,164	1,111,734	3,985,778	3,414,335
Agricultural Services	5,512,171	4,114,818	14,348,396	11,535,958
Other	1,249,526	1,087,914	3,667,409	3,367,979
Total	\$ 11,381,150	\$ 9,122,841	\$ 31,804,111	\$ 27,048,775
Intersegment sales				
Oilseeds Processing	\$ 96,646	\$ 36,388	\$ 314,737	\$ 117,567
Corn Processing	98,539	91,199	264,712	283,313
Agricultural Services	554,379	352,206	1,420,227	945,980
Other	31,690	28,991	92,483	85,920
Total	\$ 781,254	\$ 508,784	\$ 2,092,159	\$ 1,432,780
Net sales				
Oilseeds Processing	\$ 3,315,936	\$ 2,844,763	\$ 10,117,265	\$ 8,848,070
Corn Processing	1,498,703	1,202,933	4,250,490	3,697,648
Agricultural Services	6,066,550	4,467,024	15,768,623	12,481,938
Other	1,281,215	1,116,905	3,759,892	3,453,899
Intersegment elimination	(781,254)	(508,784)	(2,092,159)	(1,432,780)
Total	\$ 11,381,150	\$ 9,122,841	\$ 31,804,111	\$ 27,048,775
Segment operating profit				
Oilseeds Processing	\$ 168,516	\$ 176,550	\$ 530,166	\$ 403,742
Corn Processing	251,812	218,692	877,770	591,482
Agricultural Services	40,540	78,601	274,675	192,216
Other	132,267	75,649	325,495	236,465
Total segment operating profit	593,135	549,492	2,008,106	1,423,905
Corporate	(36,931)	(56,529)	(247,922)	(150,506)
Earnings before income taxes	\$ 556,204	\$ 492,963	\$ 1,760,184	\$ 1,273,399

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

COMPANY OVERVIEW

The Company is principally engaged in procuring, transporting, storing, processing, and merchandising agricultural commodities and products. The Company's operations are 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 aggregated and classified as Other.

The Oilseeds Processing segment includes activities related to processing oilseeds such as soybeans, cottonseed, sunflower seeds, canola, peanuts, and flaxseed into vegetable oils and meals principally for the food and feed industries. In addition, oilseeds may be resold into the marketplace as a raw material for other processors. Crude vegetable oil is sold "as is" or is further processed by refining, bleaching, and deodorizing into salad oils. Salad oils can be further processed by hydrogenating and/or interesterifying into margarine, shortening, and other food products. Partially refined oil is sold for use in chemicals, paints, and other industrial products. Refined oil can be further processed for use in the production of biodiesel. Oilseed meals are primary ingredients used in the manufacture of commercial livestock and poultry feeds.

The Corn Processing segment includes activities related to the production of sweeteners, starches, dextrose, and syrups for the food and beverage industry as well as activities related to the production, by fermentation, of bioproducts such as alcohol, amino acids, and other specialty food and feed ingredients.

The Agricultural Services segment utilizes the Company's extensive grain elevator and transportation network to buy, store, clean, and transport agricultural commodities, such as oilseeds, corn, wheat, milo, oats, and barley, and resells these commodities primarily as feed ingredients and as raw materials for the agricultural processing industry. Agricultural Services' grain sourcing and transportation network provides reliable and efficient services to the Company's agricultural processing operations. Also included in Agricultural Services are the activities of A.C. Toepfer International, a global merchandiser of agricultural commodities and processed products.

Other includes the Company's remaining operations, consisting principally of food and feed ingredient businesses, industrial businesses, and financial activities. Food and feed ingredient businesses include Wheat Processing with activities related to the production of wheat flour; Cocoa Processing with activities related to the production of chocolate and cocoa products; the production of natural health and nutrition products; and the production of other specialty food and feed ingredients. Financial activities include banking, captive insurance, private equity fund investments, and futures commission merchant activities.

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, 2006.

The Company's Oilseeds Processing, Agricultural Services, and Wheat Processing operations are principally agricultural commodity-based businesses where changes in segment 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 cost of products sold and minimal impact on the gross profit of underlying transactions. As a result, changes in net sales amounts of these business segments do not necessarily correspond to the changes in gross profit realized by these businesses.

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

The Company's Corn Processing operations and certain other food and feed processing operations also utilize agricultural commodities (or products derived from agricultural commodities) as raw materials. In these operations, agricultural commodity 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. For products such as ethanol, selling prices bear no direct relationship to the raw material cost of the agricultural commodity from which it is produced.

The Company conducts its business in many 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. Fluctuations in the exchange rates of foreign currencies, primarily the Euro and British pound, as compared to the U.S. dollar will result in corresponding fluctuations in the relative U.S. dollar value of the Company's revenues and expenses. The impact of these currency exchange rate changes was not significant during the quarter and nine months ended March 31, 2007.

The Company measures the performance of its business segments using key operating statistics such as segment operating profit and return on fixed capital investment and net assets. The Company's operating results can vary significantly due to changes in unpredictable factors such as fluctuations in energy prices, weather conditions, plantings, global government farm programs and policies, changes in global demand resulting from population growth and 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." Additionally, the Company's operating results for the current quarter are not necessarily indicative of the results that may be expected for the year ending June 30, 2007.

THREE MONTHS ENDED MARCH 31, 2007 COMPARED TO THREE MONTHS ENDED MARCH 31, 2006

As an agricultural-based commodity business, the Company is subject to a variety of market factors which affect the Company's operating results. Biodiesel margins in Europe declined due to higher vegetable oil prices and lower diesel fuel prices. Softseed crushing margins also declined as a result of increased softseed commodity prices. Abundant soybean supplies, improved vegetable oil values, and strong protein meal demand positively impacted soybean crushing margins. Increased ethanol contracted selling prices and continuing strong ethanol demand led to improved corn processing results. Increased selling prices as a result of solid demand for sweetener and starch products also improved corn processing results. However, corn processing results were negatively impacted by increasing net corn costs. North American origination operations were negatively impacted by reduced grain storage and handling operating results. North American river transportation operations were negatively impacted by lower barge freight rates and increased operating costs. The above mentioned factors resulted in a decline in operating results during the quarter for Oilseeds Processing and Agricultural Services while Corn Processing and Other operating results improved for the quarter. Other operating results include a \$53 million gain on the sale of the Company's Arkady food ingredient business. Increasing commodity price levels negatively affected LIFO inventory valuations partially offsetting the improvements in operating results.

ANALYSIS OF STATEMENTS OF EARNINGS

Net sales and other operating income increased 25% to \$11.4 billion for the quarter due primarily to increased selling prices of agricultural commodities and of corn processing products and, to a lesser extent, increased sales volumes of

agricultural commodities.

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

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

	THREE MONTHS ENDED		
	MARCH 31,		
	2007	2006	Change
	(In thousands)		
Oilseeds Processing	\$ 3,219,289	\$ 2,808,375	\$ 410,914
Corn Processing			
Sweeteners and Starches	627,821	500,712	127,109
Bioproducts	772,343	611,022	161,321
Total Corn Processing	1,400,164	1,111,734	288,430
Agricultural Services	5,512,171	4,114,818	1,397,353
Other			
Food, Feed and Industrial	1,224,724	1,068,926	155,798
Financial	24,802	18,988	5,814
Total Other			161,612
	1,249,526	1,087,914	
Total	\$ 11,381,150	\$ 9,122,841	\$ 2,258,309

Oilseeds Processing sales increased 15% to \$3.2 billion for the quarter due principally to increased average selling prices of vegetable oil and protein meal and increased sales volumes of vegetable oil and biodiesel. Vegetable oil selling prices and volumes improved as the markets anticipate new demand from the developing U.S. biodiesel industry. Protein meal average selling prices increased as a result of higher oilseed commodity prices. Corn Processing sales increased 26% to \$1.4 billion for the quarter principally due to Bioproducts sales increases and, to a lesser extent, increased sales of Sweeteners and Starches. Bioproducts sales increased due to increased average selling prices and, to a lesser extent, increased sales volumes of ethanol. Ethanol average sales prices and volumes improved principally due to strong demand from gasoline refiners and higher gasoline prices. Sweeteners and Starches sales increased primarily due to higher average selling prices resulting from solid demand for sweetener and starch products. Agricultural Services sales increased 34% to \$5.5 billion for the quarter primarily due to increased sales volumes and increased agricultural commodity prices. The increase in commodity prices is primarily due to higher average market prices for corn in North America which increased approximately 60% from the prior year quarter. Increased sales volumes of global grain merchandising activities also contributed to the increase in Agricultural Services sales. Other sales increased 15% to \$1.2 billion for the quarter primarily due to higher average selling prices of wheat flour and to a lesser extent, increased volumes and selling prices of cocoa products.

Cost of products sold increased 27% to \$10.6 billion for the quarter primarily due to higher average prices of agricultural commodities and increased sales volumes. Manufacturing costs decreased \$9 million primarily due to decreased energy costs partially offset by higher plant depreciation costs and increased employee-related costs.

Selling, general, and administrative expenses decreased 1% to \$294 million for the quarter due principally to decreased employee-related costs partially offset by currency exchange rate fluctuations.

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

Other income increased \$85 million for the quarter due principally to a \$53 million gain on the sale of the Company's Arkady food ingredient business, increased equity in earnings of unconsolidated affiliates, increased investment income, and a \$14 million increase in realized securities gains. These increases were partially offset by an increase in interest expense. Equity in earnings of unconsolidated affiliates improved principally due to improved operating results of the Company's oilseed crushing, corn processing, and corn flour ventures and higher valuations of the Company's private equity fund investments. Investment income increased due to higher average investment levels and interest rates. Interest expense increased primarily due to higher average borrowing levels and, to a lesser extent, higher interest rates.

Operating profit by segment for the quarter is as follows:

	THREE MONTHS ENDED		
	MARCH 31,		
	2007	2006	Change
	(In thousands)		
Oilseeds Processing	\$ 168,516	\$ 176,550	\$ (8,034)
Corn Processing			
Sweeteners and Starches	126,636	113,223	13,413
Bioproducts	125,176	105,469	19,707
Total Corn Processing	251,812	218,692	33,120
Agricultural Services	40,540	78,601	(38,061)
Other			
Food, Feed and Industrial	97,328	34,764	62,564
Financial	34,939	40,885	(5,946)
Total Other	132,267	75,649	56,618
Total Segment Operating Profit	593,135	549,492	43,643
Corporate	(36,931)	(56,529)	19,598
Earnings Before Income Taxes	\$ 556,204	\$ 492,963	\$ 63,241

Oilseeds Processing operating profits decreased 5% to \$169 million for the quarter principally due to decreased operating results in North America and Europe. North American oilseeds processing results decreased principally due to lower softseed crushing margins resulting from increased softseed commodity prices. This decrease was partially offset by improved soybean crushing margins principally due to abundant soybean supplies in the U.S. and good demand for soybean meal. In addition, vegetable oil values improved as the markets anticipate new demand from the developing U.S. biodiesel industry. European oilseeds processing results decreased principally due to biodiesel operating profits decreasing as a result of higher vegetable oil prices and lower diesel fuel prices. These decreases were partially offset by improved operating results in South America and Asia. Last year's operating profits included a \$4 million charge for abandonment and write-down of long-lived assets.

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

Corn Processing operating profits increased 15% to \$252 million for the quarter primarily due to higher average selling prices, higher ethanol sales volumes, and lower energy costs. These increases were partially offset by higher net corn costs. Sweeteners and Starches operating profits increased \$13 million due primarily to higher average sales prices. Sales volumes and prices have increased principally due to good demand for sweetener and starch products. These increases were partially offset by increased net corn costs. Bioproducts operating profits increased \$20 million primarily due to higher ethanol average selling prices and volumes and, to a lesser extent, lower energy costs. These increases were partially offset by increased net corn costs. Ethanol average sales prices and volumes increased principally due to strong demand from gasoline refiners and higher gasoline prices.

Agricultural Services operating profits decreased 48% to \$41 million for the quarter due to decreases in North American origination, transportation, and global grain merchandising operating results. North American origination operating results declined due to reduced grain storage and handling operating results and an increase in inventory carrying costs. North American river transportation operating results decreased primarily due to decreased barge freight rates and increased operating costs. Barge freight rates declined due to lower demand compared to the prior year quarter and, to a lesser extent, poor weather conditions in the Midwestern United States. Agricultural Services operating profits for the quarter include a \$12 million trade disruption insurance recovery related to Hurricane Katrina.

Other operating profits increased \$57 million to \$132 million for the quarter. Other - Food, Feed and Industrial operating profits increased \$63 million primarily due to a \$53 million gain on the sale of the Company's Arkady food ingredient business. Last year's operating profits included a \$15 million charge related to exiting the European animal feed business. Excluding the gain on the sale of the Arkady food ingredient business and last year's charge to exit the European animal feed business, Other - Food Feed, and Industrial operating profits decreased \$6 million primarily due to a decline in cocoa processing operating results due to increased industry capacity which caused downward pressure on cocoa processing margins. This decrease was partially offset by improved operating results of wheat processing and formula feed operations. Other - Financial operating profits declined principally due to lower results of the Company's captive insurance operations, partially offset by increased valuations of the Company's private equity fund investments and improvements in the Company's futures commission merchant business. The results of the Company's captive insurance operations for the quarter include a \$12 million charge related to a Hurricane Katrina trade disruption insurance settlement.

Corporate expense decreased \$20 million primarily due to an increase in realized securities gains and a \$28 million reduction in unallocated interest expense. The reduction in unallocated interest expense is principally due to higher levels of invested funds and higher interest rates. These increases were partially offset by a \$23 million charge, compared to a \$1 million credit in the prior year, related to the effect of changing commodity prices on LIFO inventory valuations.

Income taxes increased due to an increase in the Company's effective tax rate and, to a lesser extent, higher pretax earnings. The Company's effective tax rate during the quarter was 34.8% as compared to 29.4% for the prior year quarter. The increase in the Company's effective tax rate is primarily due to changes in the geographic mix of pretax earnings.

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

NINE MONTHS ENDED MARCH 31, 2007 COMPARED TO NINE MONTHS ENDED MARCH 31, 2006

As an agricultural-based commodity business, the Company is subject to a variety of market factors which affect the Company's operating results. Strong biodiesel demand in Europe continued to create increased vegetable oil demand and positively impacted rapeseed crushing margins in Europe. Abundant oilseed supplies, improved vegetable oil values, and strong protein meal demand have positively impacted oilseed crushing margins in North America. Increased ethanol contracted selling prices and continuing strong ethanol demand led to improved corn processing results. Increased selling prices as a result of solid demand for sweetener and starch products also improved corn processing results. North American river transportation operations were favorably impacted by strong demand for river transportation services which increased barge freight rates. The above mentioned factors resulted in improved operating results during the nine months for Oilseeds Processing, Corn Processing, and Agricultural Services. Increasing commodity price levels negatively affected LIFO inventory valuations partially offsetting the improvements in operating results.

ANALYSIS OF STATEMENTS OF EARNINGS

Net sales and other operating income increased 18% to \$31.8 billion for the nine months due primarily to increased selling prices of agricultural commodities and of corn processing products and, to a lesser extent, increased sales volumes of oilseed processing products and agricultural commodities.

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

	NINE MONTHS ENDED MARCH 31,		
	2007	2006	Change
	(In thousands)		
Oilseeds Processing	\$ 9,802,528	\$ 8,730,503	\$ 1,072,025
Corn Processing			
Sweeteners and Starches	1,698,636	1,485,631	213,005
Bioproducts	2,287,142	1,928,704	358,438
Total Corn Processing	3,985,778	3,414,335	571,443
Agricultural Services	14,348,396	11,535,958	2,812,438
Other			
Food, Feed and Industrial	3,597,386	3,316,151	