ARCHER DANIELS MIDLAND CO
Form 10-Q
August 01, 2017

UNITED STATES SECURITIES 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 June 30, 2017
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.)
77 West Wacker Drive, Suite 4600	
Chicago, Illinois	60601
(Address of principal executive offices)	(Zip Code)

(312) 634-8100
(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, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 – 562,547,422 shares
(July 31, 2017)

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
Archer-Daniels-Midland Company

Consolidated Statements of Earnings
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions, except per share amounts)			
Revenues	$14,943	$15,629	$29,931	$30,013
Cost of products sold	14,056	14,892	28,176	28,495
Gross Profit	887	737	1,755	1,518
Selling, general, and administrative expenses	531	500	1,052	979
Asset impairment, exit, and restructuring costs	23	12	33	25
Interest expense	86	65	167	135
Equity in earnings of unconsolidated affiliates	(109)	(90)	(281)	(155)
Interest income	(25)	(23)	(48)	(45)
Other (income) expense – net	(2)	(134)	(9)	(134)
Earnings Before Income Taxes	383	407	841	713
Income taxes	108	119	226	195
Net Earnings Including Noncontrolling Interests	275	288	615	518
Less: Net earnings (losses) attributable to noncontrolling interests	(1)	4	—	4
Net Earnings Attributable to Controlling Interests	$276	$284	$615	$514
Average number of shares outstanding – basic	571	591	574	593
Average number of shares outstanding – diluted	574	594	576	595
Basic earnings per common share	$0.48	$0.48	$1.07	$0.87
Diluted earnings per common share	$0.48	$0.48	$1.07	$0.87
Dividends per common share	$0.32	$0.30	$0.64	$0.60

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Net earnings including noncontrolling interests	$275	$288	$615	$518
Other comprehensive income (loss):				
Foreign currency translation adjustment	362	(218)	383	(16)
Tax effect	33	(10)	36	13
Net of tax amount	395	(228)	419	(3)
Pension and other postretirement benefit liabilities adjustment	7	15	19	16
Tax effect	(2)	(3)	(8)	(3)
Net of tax amount	5	12	11	13
Deferred gain (loss) on hedging activities	35	(21)	38	(11)
Tax effect	(2)	2	(5)	—
Net of tax amount	33	(19)	33	(11)
Unrealized gain (loss) on investments	1	45	(5)	12
Tax effect	—	(1)	—	(3)
Net of tax amount	1	44	(5)	9
Other comprehensive income (loss)	434	(191)	458	8
Comprehensive income (loss) including noncontrolling interests	709	97	1,073	526
Less: Comprehensive income (loss) attributable to noncontrolling interests	—	4	1	4
Comprehensive income (loss) attributable to controlling interests	$709	$93	$1,072	$522

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Consolidated Balance Sheets

(In millions)	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	$ 433	$ 619
Short-term marketable securities	237	296
Segregated cash and investments	5,070	5,011
Trade receivables	1,717	1,905
Inventories	7,846	8,831
Other current assets	2,898	4,383
Total Current Assets	18,201	21,045
Investments and Other Assets		
Investments in and advances to affiliates	4,856	4,497
Long-term marketable securities	199	187
Goodwill and other intangible assets	3,866	3,703
Other assets	750	579
Total Investments and Other Assets	9,671	8,966
Property, Plant, and Equipment		
Land	453	445
Buildings	4,872	4,679
Machinery and equipment	17,620	17,160
Construction in progress	1,227	1,213
	24,172	23,497
Accumulated depreciation	(14,227)	(13,739)
Net Property, Plant, and Equipment	9,945	9,758
Total Assets	$ 37,817	$ 39,769
Liabilities, Temporary Equity, and Shareholders’ Equity		
Current Liabilities		
Short-term debt	$ 353	$ 154
Trade payables	2,926	3,606
Payables to brokerage customers	5,106	5,158
Accrued expenses and other payables	2,465	3,982
Current maturities of long-term debt	571	273
Total Current Liabilities	11,421	13,173
Long-Term Liabilities		
Long-term debt	6,056	6,504
Deferred income taxes	1,606	1,669
Other	1,289	1,218
Total Long-Term Liabilities	8,951	9,391

Temporary Equity - Redeemable noncontrolling interest	27	24
Shareholders’ Equity		
Common stock	2,376	2,327
Reinvested earnings	17,176	17,444
Accumulated other comprehensive income (loss)	(2,141)	(2,598)
Noncontrolling interests	7	8
Total Shareholders’ Equity	17,418	17,181
Total Liabilities, Temporary Equity, and Shareholders’ Equity	$ 37,817	$ 39,769

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Consolidated Statements of Cash Flows
(Unaudited)

(In millions)	Six Months Ended June 30, 2017	2016
Operating Activities		
Net earnings including noncontrolling interests	$615	$518
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation and amortization	452	452
Asset impairment charges	19	20
Deferred income taxes	(82)	86
Equity in earnings of affiliates, net of dividends	(160)	(30)
Stock compensation expense	48	45
Deferred cash flow hedges	39	44
Gains on sales of assets and businesses/revaluation	(51)	(121)
Other – net	120	24
Changes in operating assets and liabilities		
Segregated cash and investments	(113)	(408)
Trade receivables	278	(477)
Inventories	1,129	283
Other current assets	1,413	(15)
Trade payables	(757)	(710)
Payables to brokerage customers	(95)	500
Accrued expenses and other payables	(1,541)	(580)
Total Operating Activities	1,314	(369)
Investing Activities		
Purchases of property, plant, and equipment	(452)	(396)
Proceeds from sales of business and assets	149	96
Net assets of businesses acquired	(180)	(120)
Purchases of marketable securities	(318)	(802)
Proceeds from sales of marketable securities	424	865
Investments in and advances to affiliates	(186)	(464)
Other – net	(3)	8
Total Investing Activities	(566)	(813)
Financing Activities		
Long-term debt borrowings	17	—
Long-term debt payments	(269)	(8)
Net borrowings (payments) under lines of credit agreements	195	1,454
Share repurchases	(511)	(487)
Cash dividends	(364)	(353)
Other – net	(7)	(3)
Total Financing Activities	(939)	603

Increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents	(191)	(579)
Cash, cash equivalents, restricted cash, and restricted cash equivalents - beginning of period	688	1,003
Cash, cash equivalents, restricted cash, and restricted cash equivalents - end of period	$497	$424
Reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents to the consolidated balance sheets		
Cash and cash equivalents	$433	$334
Restricted cash and restricted cash equivalents included in segregated cash and investments	64	90
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	$497	$424

See notes to consolidated financial statements.

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Archer-Daniels-Midland-Company

Consolidated Statement of Shareholders' Equity
(Unaudited)

	Common Stock		Reinvested Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Shareholders' Equity
	Shares	Amount				
	(In millions)					
Balance, December 31, 2016	573	$ 2,327	$ 17,444	$ (2,598)	$ 8	$ 17,181
Impact of ASU 2016-16 (see Note 2)			(7)			(7)
Balance, January 1, 2017	573	$ 2,327	$ 17,437	$ (2,598)	$ 8	$ 17,174
Comprehensive income						
Net earnings			615		—	
Other comprehensive income (loss)				457	1	
Total comprehensive income						1,073
Cash dividends paid- $0.64 per share			(364)			(364)
Share repurchases	(12)		(511)			(511)
Stock compensation expense	2	48				48
Other	—	1	(1)	—	(2)	(2)
Balance, June 30, 2017	563	$ 2,376	$ 17,176	$ (2,141)	$ 7	$ 17,418

See notes to consolidated financial statements.

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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 audited financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the quarter and six-month period ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. For further information, refer to the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

Principles of Consolidation

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

Reclassifications

The Company classified $17 million and $32 million of fees from its U.S. futures commission brokerage business in cost of products sold in the quarter and six months ended June 30, 2017, respectively. The current presentation is consistent with the classification of similar fees in the Company’s futures commission brokerage business in the U.K. Prior period amounts of $20 million and $35 million in the quarter and six months ended June 30, 2016, respectively, have been reclassified from selling, general, and administrative expenses in the consolidated statement of earnings to conform to the current presentation.

In the quarter ended June 30, 2017, the Company began presenting certain items (specified items) separately from the individual business segments as further described in Note 14 and Item 2 Management’s Discussion and Analysis of Financial Condition and Results of Operations. Prior period amounts conform to the current presentation with no change in total segment operating profit.

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.

Note 2. New Accounting Standards

Effective January 1, 2017, the Company adopted the amended guidance of ASC Topic 330, Inventory, which simplifies the measurement of inventory. The amended guidance requires an entity to measure its cost-based inventory at the lower of cost or net realizable value, where net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 2. New Accounting Standards (Continued)

Effective January 1, 2017, the Company adopted the amended guidance of ASC Topic 323, Investments - Equity Method and Joint Ventures, which simplifies the transition to the equity method of accounting. The amended guidance eliminates the requirement of an investor to adjust the investment, results of operations, and retained earnings retroactively when an investment qualifies for equity method accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments require that the investor add the cost of acquiring the additional interest in the investee to the current basis of the investors' previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The adoption of this amended guidance did not have an impact on the Company's financial results.

Effective January 1, 2017, the Company adopted the amended guidance of ASC Topic 810, Consolidation, which affects reporting entities that are required to evaluate whether they should consolidate a variable interest entity in certain situations involving entities under common control. The amended guidance changes the evaluation of whether a reporting entity is the primary beneficiary of a variable interest entity by changing how a reporting entity that is a single decision maker of a variable interest entity treats indirect interests in the entity held through related parties that are under common control with the reporting entity. The Company was required to adopt the amended guidance using a retrospective transition approach to all periods presented. The adoption of this amended guidance did not result in the deconsolidation or consolidation of any of its variable interest entities.

Effective January 1, 2017, the Company adopted the amended guidance of ASC Topic 740, Income Taxes, which requires entities to recognize the income tax consequences of an intra-entity transfer, other than inventory, when the transfer occurs. Under the previous accounting rules, entities were prohibited from recognizing current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. The amended guidance does not change the accounting for the pre-tax effects of an intra-entity asset transfer or for an intra-entity transfer of inventory. The Company adopted the amended guidance on a modified retrospective approach basis through a $7 million cumulative effect adjustment to retained earnings as of January 1, 2017.

Note 3. Pending Accounting Standards

Effective January 1, 2018, the Company will be required to adopt the amended guidance of ASC Subtopic 825-10, Financial Instruments - Overall, which is intended to improve the recognition and measurement of financial instruments. The amended guidance requires an entity to measure equity investments, except those accounted for under the equity method of accounting or those that result in consolidation of the investee, at fair value with changes in fair value recognized in net income and simplify the impairment assessment of equity investments without readily determinable fair values by using a qualitative assessment to identify impairment. The Company does not expect the adoption of this amended guidance to have a significant impact on the Company's financial results.

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Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 3. Pending Accounting Standards (Continued)

Effective January 1, 2018, the Company will be required to adopt the new guidance of ASC Topic 606, Revenue from Contracts with Customers (Topic 606), which will supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition. Topic 606 requires the Company to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance requires the Company to apply the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the Company satisfies a performance obligation. The Company will be required to adopt Topic 606 either on a full retrospective basis to each prior reporting period presented or on a modified retrospective basis with the cumulative effect of initially applying the new guidance recognized at the date of initial application. The Company will adopt Topic 606 on a modified retrospective basis and will be required to provide additional disclosures of the amount by which each financial statement line item is affected in the current reporting period, as compared to the guidance that was in effect before the change, and an explanation of the reasons for significant changes. The adoption of this new guidance will require expanded disclosures in the Company’s consolidated financial statements including separate quantitative disclosure of revenues within the scope of Topic 606 and revenues excluded from the scope of Topic 606. Many of the Company’s sales contracts are considered derivatives under ASC Topic 815, Derivatives and Hedging, and are therefore excluded from the scope of Topic 606. The Company has established a cross-functional implementation team consisting of representatives from all of its business segments. The Company utilized surveys to validate all of its current revenue recognition streams and identify areas of its business where potential differences could result from applying the requirements of the new standard. The Company also conducted workshops and is currently conducting contract reviews to gather more information about the nature, magnitude, and frequency of the underlying transactions that drove the survey responses. Based on the surveys, workshops, and contract reviews, the Company identified potential accounting change in the areas of control transfer, consignment arrangements, repurchase options/rights, multiple element arrangements, voyage charter revenue, variable consideration, and principal versus agent arrangements. In the second half of the year, the Company will complete the final phase of its revenue recognition implementation plan which includes quantification of the areas of accounting change and an assessment of the financial impact of the new guidance on its consolidated financial statements.

Effective January 1, 2018, the Company will be required to adopt the amended guidance of ASC Topic 805, Business Combinations, which clarifies the definition of a business. The amended guidance is intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (disposals) of assets or businesses and provides a more robust framework to use in determining when a set of assets and activities is a business. Early adoption is permitted for transactions that have not been reported in financial statements that have been issued or made available for issuance. No disclosures are required at adoption. The Company plans to adopt the amended guidance on October 1, 2017.

Effective January 1, 2018, the Company will be required to adopt the amended guidance of ASC Topic 715, Compensation - Retirement Benefits, which requires that an employer report the service cost component in the same line or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The adoption of this amended guidance will require expanded disclosures and the reclassification of the other components of net benefit cost from cost of products sold and selling, general, and administrative expenses to other (income) expense - net in the

Company’s consolidated statements of earnings but will not impact financial results.

Effective January 1, 2018, the Company will be required to adopt the amended guidance of ASC Topic 718, Compensation - Stock Compensation (Topic 718), which provides clarity and reduces diversity in practice as well as cost and complexity when applying the guidance in Topic 718 to the modification of the terms and conditions of a share-based payment. The amendments include guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting. Early adoption is permitted, including in any interim period for which financial statements have not yet been issued. The Company does not expect the adoption of this amended guidance to have a significant impact on the Company’s financial results.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 3. Pending Accounting Standards (Continued)

Effective January 1, 2019, the Company will be required to adopt the new guidance of ASC Topic 842, Leases (Topic 842), which will supersede ASC Topic 840, Leases. Topic 842 requires lessees to recognize assets and liabilities for all leases with lease terms of more than 12 months. The Company expects to adopt Topic 842 using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The adoption of this new guidance will require expanded disclosures in the Company’s consolidated financial statements. The Company has established a cross-functional implementation team consisting of representatives from accounting, legal, procurement, and operations. The Company utilized surveys to centrally gather more information about its existing leases and lease processes and to gather lease contracts. To ensure completeness of the population of lease contracts, the results of the survey were cross-referenced against other available lease information (i.e., year-end disclosures and general ledger). The Company is also working with a vendor to implement a lease management system which will assist in delivering the required accounting changes and disclosures. The next phase of the implementation plan is the abstraction of the relevant lease contract data points which is expected to be completed in the first quarter of 2018. The impact of the new standard will be a material increase to right of use assets and lease liabilities on the Company’s consolidated balance sheet, primarily, as a result of operating leases currently not recognized on the balance sheet. The Company has not yet completed its assessment of the impact of the new guidance on its consolidated statement of earnings.

Effective January 1, 2020, the Company will be required to adopt the amended guidance of ASC Topic 326, Financial Instruments - Credit Losses, which is intended to improve financial reporting by requiring more timely recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The amended guidance requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Early adoption will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company does not expect the adoption of this amended guidance to have a significant impact on the Company’s financial results.

Effective January 1, 2020, the Company will be required to adopt the amended guidance of ASC Topic 350, Goodwill and Other, which simplifies the subsequent measurement of goodwill. The amended guidance removes the second step of the goodwill impairment test and requires the application of a one-step quantitative test where the amount of goodwill impairment is the excess of a reporting unit's carrying amount over its fair value, but not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The impact on the Company’s financial results resulting from the adoption of the amended guidance will depend on the outcome of the goodwill impairment test on the chosen adoption date.

Note 4. Acquisitions

During the six months ended June 30, 2017, the Company acquired Crosswind Industries, Inc., an 89% ownership stake in Biopolis SL, and Chamtor SA. The aggregate cash purchase price of these acquisitions of $180 million, net of cash acquired of $6 million, was preliminarily allocated to working capital, property, plant, and equipment, goodwill, other intangible assets, other long term assets, long-term liabilities, and noncontrolling interest for $18 million, $101 million, $21 million, $50 million, $6 million, $14 million, and $2 million, respectively.

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Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements

The following tables set forth, by level, the Company's assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2017 and December 31, 2016.

	Fair Value Measurements at June 30, 2017			
	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	$—	$ 3,143	$ 1,000	$4,143
Unrealized derivative gains:				
Commodity contracts	—	338	106	444
Foreign currency contracts	—	83	—	83
Interest rate contracts	—	8	—	8
Cash equivalents	22	—	—	22
Marketable securities	346	90	—	436
Segregated investments	1,492	—	—	1,492
Deferred receivables consideration	—	353	—	353
Total Assets	$1,860	$ 4,015	$ 1,106	$6,981
Liabilities:				
Unrealized derivative losses:				
Commodity contracts	$1	$ 316	$ 154	$471
Foreign currency contracts	—	110	—	110
Inventory-related payables	—	329	32	361
Total Liabilities	$1	$ 755	$ 186	$942

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

	Fair Value Measurements at December 31, 2016			
	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	$—	$ 3,102	$ 1,322	$4,424
Unrealized derivative gains:				
Commodity contracts	—	371	140	511
Foreign exchange contracts	—	102	—	102
Interest rate contracts	—	11	—	11
Cash equivalents	286	—	—	286
Marketable securities	408	69	—	477
Segregated investments	1,613	—	—	1,613
Deferred receivables consideration	—	540	—	540
Total Assets	$2,307	$ 4,195	$ 1,462	$7,964
Liabilities:				
Unrealized derivative losses:				
Commodity contracts	$—	$ 419	$ 142	$561
Foreign exchange contracts	—	90	—	90
Inventory-related payables	—	491	30	521
Total Liabilities	$—	$ 1,000	$ 172	$1,172

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. When unobservable inputs have a significant impact on the measurement of fair value, the inventory is classified in Level 3. Changes in the fair value of inventories are recognized in the consolidated statements of earnings as a component of cost of products sold.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

Derivative contracts include exchange-traded commodity futures and options contracts, forward commodity purchase and sale contracts, and OTC instruments related primarily to agricultural commodities, energy, interest rates, and foreign currencies. Exchange-traded futures and options contracts are valued based on unadjusted quoted prices in active markets and are classified in Level 1. The majority of the Company's exchange-traded futures and options contracts are cash-settled on a daily basis and, therefore, are not included in these tables. Fair value for forward commodity purchase and sale contracts is estimated based on exchange-quoted prices adjusted for differences in local markets. 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. Except for certain derivatives designated as cash flow hedges, changes in the fair value of commodity-related derivatives are recognized in the consolidated statements of earnings as a component of cost of products sold. Changes in the fair value of foreign currency-related derivatives are recognized in the consolidated statements of earnings as a component of revenues, cost of products sold, or other (income) expense – net depending upon the purpose of the contract. The 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 cash equivalents are comprised of money market funds valued using quoted market prices and are classified as Level 1.

The Company's marketable securities are comprised of equity investments, U.S. Treasury securities, corporate debt securities, and other debt securities. Publicly traded equity investments and U.S. Treasury securities are valued using quoted market prices and are classified in Level 1. Corporate debt and other debt securities are valued using third-party pricing services and substantially all are classified in Level 2. 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's segregated investments are comprised of U.S. Treasury securities. U.S. Treasury securities are valued using quoted market prices and are classified in Level 1.

The Company has deferred consideration under its accounts receivable securitization programs (the "Programs") which represents notes receivable from the purchasers under the Programs (see Note 16). This amount is reflected in other current assets on the consolidated balance sheet (see Note 8). 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 Programs, which have historically been insignificant.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended June 30, 2017.

	Level 3 Fair Value Asset Measurements at June 30, 2017		
	Inventories Carried at Market	Commodity Derivative Contracts Gains	Total Assets
	(In millions)		
Balance, March 31, 2017	$1,129	$ 173	$1,302
Total increase (decrease) in net realized/unrealized gains included in cost of products sold*	157	71	228
Purchases	2,329	—	2,329
Sales	(2,677)	—	(2,677)
Settlements	—	(140)	(140)
Transfers into Level 3	115	19	134
Transfers out of Level 3	(53)	(17)	(70)
Ending balance, June 30, 2017	$1,000	$ 106	$1,106

* Includes increase in unrealized gains of $148 million relating to Level 3 assets still held at June 30, 2017.

The following table presents a reconciliation of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended June 30, 2017.

	Level 3 Fair Value Liability Measurements at June 30, 2017		
	Inventory-related Payables	Commodity Derivative Contracts Losses	Total Liabilities
	(In millions)		
Balance, March 31, 2017	$28	$ 123	$ 151
Total increase (decrease) in net realized/unrealized losses included in cost of products sold*	(9)	81	72
Purchases	16	—	16
Sales	(3)	—	(3)
Settlements	—	(98)	(98)
Transfers into Level 3	—	49	49
Transfers out of Level 3	—	(1)	(1)

Ending balance, June 30, 2017	$32	$ 154	$ 186

* Includes decrease in unrealized losses of $85 million relating to Level 3 liabilities still held at June 30, 2017.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended June 30, 2016.

	Level 3 Fair Value Asset Measurements at June 30, 2016		
	Inventories Carried at Market	Commodity Derivative Contracts Gains	Total Assets
	(In millions)		
Balance, March 31, 2016	$969	$ 218	$1,187
Total increase (decrease) in net realized/unrealized gains included in cost of products sold*	(105)	32	(73)
Purchases	2,686	—	2,686
Sales	(2,506)	—	(2,506)
Settlements	—	(120)	(120)
Transfers into Level 3	79	34	113
Transfers out of Level 3	(24)	(11)	(35)
Ending balance, June 30, 2016	$1,099	$ 153	$1,252

* Includes decrease in unrealized gains of $3 million relating to Level 3 assets still held at June 30, 2016.

The following table presents a reconciliation of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended June 30, 2016.

	Level 3 Fair Value Liability Measurements at June 30, 2016		
	Inventory-related Payables	Commodity Derivative Contracts Losses	Total Liabilities
	(In millions)		
Balance, March 31, 2016	$23	$ 111	$ 134
Total increase (decrease) in net realized/unrealized losses included in cost of products sold*	(11)	417	406
Purchases	1	—	1
Sales	(1)	—	(1)
Settlements	—	(73)	(73)
Transfers into Level 3	—	67	67
Transfers out of Level 3	—	(22)	(22)

Ending balance, June 30, 2016	$12	$ 500	$ 512

* Includes increase in unrealized losses of $419 million relating to Level 3 liabilities still held at June 30, 2016.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the six months ended June 30, 2017.

	Level 3 Fair Value Asset Measurements at June 30, 2017		
	Inventories Carried at Market	Commodity Derivative Contracts Gains	Total Assets
	(In millions)		
Balance, December 31, 2016	$1,322	$ 140	$1,462
Total increase (decrease) in net realized/unrealized gains included in cost of products sold*	(90)	140	50
Purchases	5,577	—	5,577
Sales	(5,871)	—	(5,871)
Settlements	—	(209)	(209)
Transfers into Level 3	115	66	181
Transfers out of Level 3	(53)	(31)	(84)
Ending balance, June 30, 2017	$1,000	$ 106	$1,106

* Includes decrease in unrealized gains of $34 million relating to Level 3 assets still held at June 30, 2017.

The following table presents a reconciliation of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the six months ended June 30, 2017.

	Level 3 Fair Value Liability Measurements at June 30, 2017		
	Inventory-related Payables	Commodity Derivative Contracts Losses	Total Liabilities
	(In millions)		
Balance, December 31, 2016	$30	$ 142	$ 172
Total increase (decrease) in net realized/unrealized losses included in cost of products sold*	5	119	124
Purchases	17	—	17
Sales	(20)	—	(20)
Settlements	—	(166)	(166)
Transfers into Level 3	—	73	73
Transfers out of Level 3	—	(14)	(14)
Ending balance, June 30, 2017	$32	$ 154	$ 186

* Includes decrease in unrealized losses of $124 million relating to Level 3 liabilities still held at June 30, 2017.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the six months ended June 30, 2016.

	Level 3 Fair Value Asset Measurements at June 30, 2016		
	Inventories Carried at Market	Commodity Derivative Contracts Gains	Total Assets
	(In millions)		
Balance, December 31, 2015	$1,004	$ 243	$1,247
Total increase (decrease) in net realized/unrealized gains included in cost of products sold*	(155)	94	(61)
Purchases	5,042	—	5,042
Sales	(4,743)	—	(4,743)
Settlements	—	(217)	(217)
Transfers into Level 3	79	66	145
Transfers out of Level 3	(128)	(33)	(161)
Ending balance, June 30, 2016	$1,099	$ 153	$1,252

*Includes increase in unrealized gains of $14 million relating to Level 3 assets still held at June 30, 2016.

The following table presents a reconciliation of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the six months ended June 30, 2016.

	Level 3 Fair Value Liability Measurements at June 30, 2016		
	Inventory-related Payables	Commodity Derivative Contracts Losses	Total Liabilities
	(In millions)		
Balance, December 31, 2015	$16	$ 113	$ 129
Total increase (decrease) in net realized/unrealized losses included in cost of products sold*	2	496	498
Purchases	2	—	2
Sales	(8)	—	(8)
Settlements	—	(146)	(146)
Transfers into Level 3	—	83	83
Transfers out of Level 3	—	(46)	(46)

Ending balance, June 30, 2016	$12	$ 500	$ 512

*Includes increase in unrealized losses of $498 million relating to Level 3 assets still held at June 30, 2016.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

For all periods presented, the Company had no transfers between Level 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.

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

The following table sets forth the weighted average percentage of the unobservable price components included in the Company’s Level 3 valuations as of June 30, 2017 and December 31, 2016. The Company’s Level 3 measurements may include Basis only, transportation cost only, or both price components. As an example, for Level 3 inventories with Basis, the unobservable component as of June 30, 2017 is a weighted average 12.6% of the total price for assets and 53.9% of the total price for liabilities.

	Weighted Average % of Total Price			
	June 30, 2017		December 31, 2016	
Component Type	Assets	Liabilities	Assets	Liabilities
Inventories and Related Payables				
Basis	12.6%	53.9 %	16.5%	67.1 %
Transportation cost	16.1%	17.8 %	8.3 %	—
Commodity Derivative Contracts				
Basis	19.7%	27.5 %	16.9%	27.0 %
Transportation cost	6.8 %	9.6 %	11.6%	13.4 %

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

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 6. Derivative Instruments and Hedging Activities

Derivatives Not Designated as Hedging Instruments

The majority of the Company's derivative instruments have not been designated as hedging instruments. The Company uses exchange-traded futures and exchange-traded and OTC options contracts to manage its net position of merchandisable agricultural 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. Derivatives, including exchange-traded contracts and physical purchase or sale contracts, are stated at market value and 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 fair values of and changes in fair values of inventories are not included in the tables below.

The following table sets forth the fair value of derivatives not designated as hedging instruments as of June 30, 2017 and December 31, 2016.

	June 30, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
	(In millions)			
Foreign Currency Contracts	$83	$ 110	$ 102	$ 90
Commodity Contracts	444	471	511	561
Total	$527	$ 581	$ 613	$ 651

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 and six months ended June 30, 2017 and 2016.

	Three months ended June 30,	
	2017	2016
	(In millions)	
Foreign Currency Contracts		
Revenues	$3	$(13)
Cost of products sold	(30)	155
Other income (expense) – net	133	(104)
Commodity Contracts		
Cost of products sold	1	(625)
Total gain (loss) recognized in earnings	$107	$(587)

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Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 6. Derivative Instruments and Hedging Activities (Continued)

	Six months ended June 30, 2017	2016
	(In millions)	
Foreign Currency Contracts		
Revenues	$(8)	$(13)
Cost of products sold	30	262
Other income (expense) – net	134	(105)
Commodity Contracts		
Cost of products sold	$260	$(635)
Total gain (loss) recognized in earnings	$416	$(491)

Inventories of certain merchandisable agricultural commodities, which include amounts acquired under deferred pricing contracts, are stated at market value. 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 or Fair Value Hedging Strategies

As of June 30, 2017 and December 31, 2016, the Company has certain derivatives designated as cash flow and fair value hedges.

The Company uses interest rate swaps designated as fair value hedges to protect the fair value of fixed-rate debt due to changes in interest rates. The changes in the fair value of the interest rate swaps and the underlying fixed-rate debt are recorded in other (income) expense - net. The terms of the interest rate swaps match the terms of the underlying debt resulting in no ineffectiveness. At June 30, 2017, the Company has $8 million in other current assets representing the fair value of the interest rate swaps and a corresponding increase in the underlying debt for the same amount with no impact to earnings.
For each of the commodity hedge programs described below, the derivatives are designated as cash flow hedges. Assuming normal market conditions, 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 revenues or cost of products sold, as applicable.
The Company 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 19% and 62% of its monthly anticipated grind. At June 30, 2017, the Company has designated hedges representing between 1% and 34% of its anticipated monthly grind of corn for the next 12 months.

The Company, from time to time, also uses futures, options, and swaps to fix the sales price of certain ethanol sales contracts. The Company has established hedging programs for ethanol sales contracts that are indexed to unleaded gasoline prices and to various exchange-traded ethanol contracts. The objective of these hedging programs is to reduce the variability of cash flows associated with the Company's sales of ethanol. During the past 12 months, the Company hedged between 1 million and 66 million gallons of ethanol sales per month under these programs. At June 30, 2017, the Company has designated hedges representing between 0 and 1 million gallons of ethanol sales per month over the next 12 months.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 6. Derivative Instruments and Hedging Activities (Continued)

The following table sets forth the fair value of derivatives designated as hedging instruments as of June 30, 2017 and December 31, 2016.

	June 30, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
	(In millions)			
Interest Rate Contracts	$8	$ —	$ 11	$ —
Total	$8	$ —	$ 11	$ —

The following table sets forth the pre-tax gains (losses) on derivatives designated as hedging instruments that have been included in the consolidated statements of earnings for the three and six months ended June 30, 2017 and 2016.

	Consolidated Statement of Earnings Locations	Three months ended June 30, 2017	2016
		(In millions)	
Effective amounts recognized in earnings			
Foreign Currency Contracts	Other income/expense – net	$—	$(8)
Commodity Contracts	Revenues	1	(6)
	Cost of products sold	(6)	(5)
Ineffective amount recognized in earnings			
Commodity Contracts	Revenues	—	(1)
	Cost of products sold	4	2
Total amount recognized in earnings		$(1)	$(18)

	Consolidated Statement of Earnings Locations	Six months ended June 30, 2017	2016
		(In millions)	
Effective amounts recognized in earnings			
Foreign Currency Contracts	Other income/expense – net	$(2)	$(22)
Commodity Contracts	Revenues	—	(5)
	Cost of products sold	(5)	(24)
Ineffective amount recognized in earnings			
Commodity Contracts	Revenues	4	1
	Cost of products sold	9	4
Total amount recognized in earnings		$6	$(46)

Hedge ineffectiveness for commodity contracts results when the change in the price of the underlying commodity in a specific cash market differs from the change in the price of the derivative financial instrument used to establish the hedging relationship. As an example, if the change in the price of a corn futures contract is strongly correlated to the change in cash price paid for corn, the gain or loss on the derivative instrument is deferred and recognized at the time the corn grind occurs. If the change in price of the derivative does not strongly correlate to the change in the cash price of corn, in the same example, some portion or all of the derivative gains or losses may be required to be recognized in earnings prior to when the corn grind occurs.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 6. Derivative Instruments and Hedging Activities (Continued)

Net Investment Hedging Strategies

On June 24, 2015, the Company issued €500 million aggregate principal amount of Floating Rate Notes and €600 million aggregate principal amount of 1.75% Notes (collectively, the “Notes”). The Company has designated €1.1 billion of the Notes as a hedge of its net investment in a foreign subsidiary. As of June 30, 2017, the Company has $20 million of after-tax losses in AOCI related to gains and losses from the net investment hedge transaction. The amount is deferred in AOCI until the underlying investment is divested.

Note 7. Marketable Securities

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In millions)			
June 30, 2017				
United States government obligations				
Maturity less than 1 year	$234	$ —	$ —	$234
Maturity 1 to 5 years	112	—	—	112
Corporate debt securities				
Maturity less than 1 year	3	—	—	3
Maturity 1 to 5 years	87	—	—	87
	$436	$ —	$ —	$436

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In millions)			
December 31, 2016				
United States government obligations				
Maturity less than 1 year	$287	$ —	$ —	$287
Maturity 1 to 5 years	121	—	(1)	120
Corporate debt securities				
Maturity less than 1 year	1	—	—	1
Maturity 1 to 5 years	66	—	—	66
Other debt securities				
Maturity less than 1 year	8	—	—	8
Equity securities				
Available-for-sale	1	—	—	1
	$484	$ —	$ (1)	$483

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 8. Other Current Assets

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

	June 30, 2017	December 31, 2016
	(In millions)	
Unrealized gains on derivative contracts	$535	$ 624
Deferred receivables consideration	353	540
Customer omnibus receivable	430	521
Financing receivables - net [1]	351	373
Insurance premiums receivable	52	648
Prepaid expenses	285	268
Tax receivables	347	480
Non-trade receivables [2]	370	478
Other current assets	175	451
	$2,898	$ 4,383

[1] The Company provides financing to certain suppliers, primarily Brazilian farmers, to finance a portion of the suppliers' production costs. The amounts are reported net of allowances of $7 million at June 30, 2017 and December 31, 2016. Interest earned on financing receivables of $5 million and $12 million for the three and six months ended June 30, 2017, respectively, and $4 million and $12 million for the three and six months ended June 30, 2016, respectively, is included in interest income in the consolidated statements of earnings.

[2] Non-trade receivables include $58 million and $223 million of reinsurance recoverables as of June 30, 2017 and December 31, 2016, respectively.

Note 9. Accrued Expenses and Other Payables

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

	June 30, 2017	December 31, 2016
	(In millions)	
Unrealized losses on derivative contracts	$581	$ 651
Reinsurance premiums payable	13	479
Insurance claims payables	245	373
Deferred income	366	1,065
Other accruals and payable	1,260	1,414
	$2,465	$ 3,982

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 10. Debt and Financing Arrangements

At June 30, 2017, the fair value of the Company's long-term debt exceeded the carrying value by $1.1 billion, as estimated using quoted market prices (a Level 2 measurement under applicable accounting standards).

At June 30, 2017, the Company had lines of credit, including the accounts receivable securitization programs, totaling $6.7 billion, of which $5.1 billion was unused. Of the Company's total lines of credit, $4.0 billion support a commercial paper borrowing facility, against which there was $0.2 billion of commercial paper outstanding at June 30, 2017.

The Company has accounts receivable securitization programs (the "Programs"). The Programs provide the Company with up to $1.5 billion in funding resulting from the sale of accounts receivable. As of June 30, 2017, the Company utilized $1.2 billion of its facility under the Programs (see Note 16 for more information on the Programs).

Note 11. Income Taxes

The Company's effective tax rate for the three and six months ended June 30, 2017 was 28.2% and 26.9%, respectively, compared to 29.2% and 27.3% for the three and six months ended June 30, 2016, respectively. The change in the rates was primarily due to changes in the forecasted geographic mix of pre-tax earnings and the effect of certain discrete adjustments, partially offset by the expiration of U.S. tax credits, including the biodiesel credit, at the end of 2016.

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 negotiation 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 the applicable accounting standard. 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), has 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. As of June 30, 2017, these assessments, updated for estimated penalties, interest, and variation in currency exchange rates, totaled approximately $464 million. The statute of limitations for tax years 2005 and 2008 to 2011 has expired. The Company does not expect to receive any additional tax assessments.

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.

ADM do Brasil filed an administrative appeal for each of the assessments. The appeal panel found in favor of the BFRS on these assessments and ADM do Brasil filed a second level administrative appeal. The second administrative appeal panel continues to conduct customary procedural activities, including ongoing dialogue with the BFRS auditor. If ADM do Brasil continues to be unsuccessful in the administrative appellate process, the Company intends to file appeals 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 2011.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 11. Income Taxes (Continued)

The Company's subsidiaries in Argentina have received tax assessments challenging transfer prices used to price grain exports totaling $130 million (inclusive of interest and adjusted for variation in currency exchange rates) for the tax years 2004 through 2010. 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. While the Company believes that it has complied with all Argentine tax laws, it cannot rule out receiving additional assessments challenging transfer prices used to price grain exports for years subsequent to 2010, and estimates that these potential assessments would be approximately $210 million (as of June 30, 2017 and subject to variation in currency exchange rates). The Company believes that it has appropriately evaluated the transactions underlying these assessments, and has concluded, based on Argentine tax law, that its tax position would be sustained, and accordingly, has not recorded a tax liability for these assessments. The Company intends to vigorously defend its position against the current assessments and any similar assessments that may be issued for years subsequent to 2010.

In accordance with the accounting requirements for uncertain tax positions, the Company has not recorded an uncertain tax liability for these assessments because it has concluded that it is more likely than not to prevail on the Brazil and Argentina matters based upon their technical merits and because the taxing jurisdictions' processes do not provide a mechanism for settling at less than the full amount of the assessment. The Company's consideration of these tax assessments requires judgments about the application of income tax regulations to specific facts and circumstances. The final outcome of these matters cannot reliably be predicted, may take many years to resolve, and could result in financial impacts of up to the entire amount of these assessments.

The Company's wholly-owned subsidiary in the Netherlands, ADM Europe B.V., has received a tax assessment totaling $103 million from the Netherlands tax authority challenging the transfer pricing aspects of a 2009 business reorganization which involved two of its subsidiary companies in the Netherlands. The Company has appealed the assessment and carefully evaluated the underlying transactions and has concluded that the amount of the gain recognized on the reorganization for tax purposes was appropriate. While the Company plans to vigorously defend its position against the assessment, it has accrued an amount it believes would be the likely outcome of the litigation. The Company's defense of the judicial appeal may take an extended period of time, and could result in additional financial impacts of up to the entire amount of this assessment.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 12. Accumulated Other Comprehensive Income (AOCI)

The following tables set forth the changes in AOCI by component for the three and six months ended June 30, 2017 and the reclassifications out of AOCI for the three and six months ended June 30, 2017 and 2016:

	Three months ended June 30, 2017				
	Foreign Currency Translation Adjustment	Deferred Gain (Loss) on Hedging Activities	Pension Liability Adjustment	Unrealized Gain (Loss) on Investments	Total
	(In millions)				
Balance at March 31, 2017	$(2,078)	$ 6	$ (515)	$ 13	$(2,574)
Other comprehensive income (loss) before reclassifications	361	30	(6)	1	386
Amounts reclassified from AOCI	—	5	13	—	18
Tax effect	33	(2)	(2)	—	29
Net current period other comprehensive income	394	33	5	1	433
Balance at June 30, 2017	$(1,684)	$ 39	$ (510)	$ 14	$(2,141)

	Six months ended June 30, 2017				
	Foreign Currency Translation Adjustment	Deferred Gain (Loss) on Hedging Activities	Pension Liability Adjustment	Unrealized Gain (Loss) on Investments	Total
	(In millions)				
Balance at December 31, 2016	$(2,102)	$ 6	$ (521)	$ 19	$(2,598)
Other comprehensive income before reclassifications	382	31	(9)	(5)	399
Amounts reclassified from AOCI	—	7	28	—	35
Tax effect	36	(5)	(8)	—	23
Net current period other comprehensive income	418	33	11	(5)	457
Balance at June 30, 2017	$(1,684)	$ 39	$ (510)	$ 14	$(2,141)

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 12. Accumulated Other Comprehensive Income (AOCI) (Continued)

Details about AOCI components	Amount reclassified from AOCI Three months ended June 30, 2017	June 30, 2016	Six months ended June 30, 2017	June 30, 2016	Affected line item in the consolidated statement of earnings
	(In millions)				
Foreign currency translation adjustment					
	$—	$ (73)	$—	$ (73)	Other income/expense
	—	—	—	—	Tax
	$—	$ (73)	$—	$ (73)	Net of tax
Deferred loss (gain) on hedging activities					
	$6	$ 5	$5	$ 24	Cost of products sold
	—	8	2	22	Other income/expense
	(1)	6	—	5	Revenues
	5	19	7	51	Total before tax
	(2)	(8)	(3)	(19)	Tax
	$3	$ 11	$4	$ 32	Net of tax
Pension liability adjustment					
Amortization of defined benefit pension items:					
Prior service credit	$(3)	$ (3)	$(6)	$ (7)	Selling, general, and administrative expenses
Actuarial losses	16	15	34	29	Selling, general, and administrative expenses
	13	12	28	22	Total before tax
	(4)	(2)	(10)	(3)	Tax
	$9	$ 10	$18	$ 19	Net of tax

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 13. Other (Income) Expense - Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
(Gains) losses on sales of assets and businesses	$(35)	$(121)	$(51)	$(124)
Other – net	33	(13)	42	(10)
Other (Income) Expense - Net	$(2)	$(134)	$(9)	$(134)

Gains on sales of assets and businesses for the three and six months ended June 30, 2017 include gains related to the sale of the crop risk services business and disposals of other individually insignificant assets in the ordinary course of business, partially offset by an adjustment of the proceeds of the 2015 sale of the cocoa business. Gains on sales of assets and businesses for the three and six months ended June 30, 2016 included realized additional consideration related to the sale of the Company's equity investment in Gruma S.A.B. de C.V. in December 2012, recovery of loss provisions and gain related to the sale of the Company's Brazilian sugar ethanol facilities, and gain related to the revaluation of the remaining interest to settlement value in conjunction with the acquisition of the remaining interest in Amazon Flavors.

Other - net for the three and six months ended June 30, 2017 includes foreign exchange losses and changes in contingent settlement provisions. Other - net for the three and six months ended June 30, 2016 included foreign exchange gains and other income.

Note 14. 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 four reportable business segments: Agricultural Services, Corn Processing, Oilseeds Processing, and Wild Flavors and Specialty Ingredients. 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 Agricultural Services segment utilizes its extensive global grain elevator and transportation networks, 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. The Agricultural Services segment includes international agricultural commodities merchandising and handling activities managed through a global trade desk based in Rolle, Switzerland. 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, rail, and container freight services. The Agricultural Services segment also includes the activities related to structured trade finance, the processing of wheat into wheat flour, and the Company's share of the results of its Pacificor (formerly Kalama Export Company LLC) joint venture. The Agricultural Services segment also included returns associated with the Company's 19.8% investment in GrainCorp until its sale in December 2016.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 14. Segment Information (Continued)

The Company's Corn Processing segment is engaged in corn wet milling and dry milling activities, utilizing its asset base primarily located in the central part of the United States with additional facilities in China, Bulgaria, France, Morocco, Spain, and Turkey. The Corn Processing segment converts corn into sweeteners, 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 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 essential amino acids such as lysine and threonine used in swine and poultry diets to optimize performance. 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. The Corn Processing segment also includes activities related to the processing and distribution of formula feeds and animal health and nutrition products. Other Corn Processing products include citric acids and glycols, all of which are used in various food and industrial products. The Corn Processing segment also included the activities of the Company's Brazilian sugarcane ethanol plant and related operations until the Company completed the sale of these operations in May 2016. This segment also includes the Company's share of the results of its equity investments in Almidones Mexicanos S.A. and Red Star Yeast Company LLC. In February 2017, the Company acquired Crosswind Industries, Inc., an industry leader in the manufacture of contract and private label pet treats and foods, as well as specialty ingredients, and an 89% ownership stake in Biopolis SL, a leading provider of microbial technology with a strong portfolio of novel food ingredients. In June 2017, the Company completed the acquisition of Chamtor SA, a French producer of wheat-based sweeteners and starches.

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 is a major supplier of peanuts, tree nuts, 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 other industrial markets. The Oilseeds Processing segment also includes the Company's share of the results of its equity investment in Wilmar International Limited (Wilmar) and its share of the results of its Stratas Foods LLC, Edible Oils Limited, and Olenex joint ventures. During the six months ended June 30, 2017, the Company acquired additional shares in Wilmar, increasing its ownership interest from 23.2% to 24.3% as of June 30, 2017.

The Wild Flavors and Specialty Ingredients (WFSI) segment engages in the manufacturing, sales, and distribution of specialty products including natural flavor ingredients, flavor systems, natural colors, proteins, emulsifiers, soluble fiber, polyols, hydrocolloids, natural health and nutrition products, and other specialty food and feed ingredients. The

WFSI segment also includes the activities related to the procurement, processing, and distribution of edible beans.

Other includes the Company's remaining operations, primarily its financial business units, related to futures commission and insurance activities. On May 1, 2017, the Company completed the sale of its crop risk services business to Validus Holdings, a global group of insurance and reinsurance companies.

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

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 14. Segment Information (Continued)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(In millions)	2017	2016	2017	2016
Gross revenues				
Agricultural Services	$6,594	$7,098	$14,329	$14,533
Corn Processing	2,455	2,549	4,801	4,940
Oilseeds Processing	7,161	7,195	13,312	12,920
Wild Flavors and Specialty Ingredients	656	684	1,223	1,279
Other	101	111	195	219
Intersegment elimination	(2,024)	(2,008)	(3,929)	(3,878)
Total gross revenues	$14,943	$15,629	$29,931	$30,013
Intersegment sales				
Agricultural Services	$746	$711	$1,675	$1,666
Corn Processing	181	197	283	381
Oilseeds Processing	1,089	1,096	1,958	1,824
Wild Flavors and Specialty Ingredients	8	4	13	7
Total intersegment sales	$2,024	$2,008	$3,929	$3,878
Revenues from external customers				
Agricultural Services				
Merchandising and Handling	$5,099	$5,506	$11,169	$11,185
Milling and Other	698	825	1,384	1,571
Transportation	51	56	101	111
Total Agricultural Services	5,848	6,387	12,654	12,867
Corn Processing				
Sweeteners and Starches	1,077	1,037	2,105	2,004
Bioproducts	1,197	1,315	2,413	2,555
Total Corn Processing	2,274	2,352	4,518	4,559
Oilseeds Processing				
Crushing and Origination	3,911	4,033	7,185	7,139
Refining, Packaging, Biodiesel, and Other	2,094	2,041	4,039	3,810
Asia	67	25	130	147
Total Oilseeds Processing	6,072	6,099	11,354	11,096
Wild Flavors and Specialty Ingredients	648	680	1,210	1,272
Total Wild Flavors and Specialty Ingredients	648	680	1,210	1,272
Other - Financial	101	111	195	219
Total Other	101	111	195	219
Total revenues from external customers	$14,943	$15,629	$29,931	$30,013

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 14. Segment Information (Continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2017	2016	2017	2016
Segment operating profit				
Agricultural Services	$109	$57	197	133
Corn Processing	224	163	395	292
Oilseeds Processing	206	235	520	496
Wild Flavors and Specialty Ingredients	92	94	167	164
Other	27	24	57	61
Specified Items:				
Gains (losses) on sales of assets and businesses[1]	8	118	8	118
Impairment, restructuring, settlement charges[2]	(26)	(10)	(35)	(12)
Hedge timing effects[3]	2	(1)	9	1
Total segment operating profit	642	680	1,318	1,253
Corporate	(259)	(273)	(477)	(540)
Earnings before income taxes	$383	$407	$841	$713

[1] Current period gain related to the sale of the crop risk services business partially offset by an adjustment of the proceeds of the 2015 sale of the cocoa business. Prior period gain primarily related to recovery of loss provisions and gain related to the sale of the Company’s Brazilian sugar ethanol facilities, realized contingent consideration on the sale of the Company’s equity investment in Gruma S.A. de C.V. in December 2012, and revaluation of the remaining interest to settlement value in conjunction with the acquisition of the remaining interest in Amazon Flavors.

[2] Current quarter and year to date charges related to impairment of certain long-lived assets, restructuring charges, and a settlement charge. Prior quarter and YTD charges primarily related to impairment of certain long-lived assets and restructuring charges.

[3] Hedge timing effects relate to hedge ineffectiveness associated with documented hedge programs.

Note 15. Asset Impairment, Exit, and Restructuring Costs

Asset impairment, exit, and restructuring costs in the quarter ended June 30, 2017 consisted of $7 million of asset impairments in the Agricultural Services segment, $6 million of asset impairments in the WFSI segment, $4 million of other individually insignificant asset impairments, and $6 million of restructuring charges. Asset impairment, exit, and restructuring costs in the six months ended June 30, 2017 consisted of $8 million of asset impairments and $7 million of restructuring charges in the Agricultural Services segment, $6 million of asset impairments in the WFSI segment, $5 million of other individually insignificant asset impairments, and $7 million of other restructuring charges.

Asset impairment, exit, and restructuring costs in the quarter ended June 30, 2016 consisted of $5 million of asset impairments in the Corn Processing segment and $7 million of other individually insignificant asset impairments and restructuring charges. Asset impairment, exit, and restructuring costs in the six months ended June 30, 2016 consisted of $11 million of software impairment in Corporate, $5 million of asset impairments in the Corn Processing segment, and $9 million of other individually insignificant asset impairments and restructuring charges.

Note 16. Sale of Accounts Receivable

Since March 2012, the Company has had an accounts receivable securitization program (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 $1.2 billion, as amended, and an additional amount upon the collection of the accounts receivable (deferred consideration). The Program terminates on June 22, 2018, unless extended.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 16. Sale of Accounts Receivable (Continued)

In March 2014, the Company entered into a second accounts receivable securitization program (the “Second Program”) with certain commercial paper conduit purchasers and committed purchasers (collectively, the “Second Purchasers”). Under the Second Program, certain non-U.S.-originated trade accounts receivable are sold to a wholly-owned bankruptcy-remote entity, ADM Ireland Receivables Company (“ADM Ireland Receivables”). ADM Ireland Receivables in turn transfers such purchased accounts receivable in their entirety to the Second Purchasers pursuant to a receivables purchase agreement. In exchange for the transfer of the accounts receivable, ADM Ireland Receivables receives a cash payment of up to $0.3 billion and an additional amount upon the collection of the accounts receivable (deferred consideration). The Second Program terminates on March 16, 2018, unless extended.

Under the Program and Second Program (collectively, the “Programs”), ADM Receivables and ADM Ireland Receivables use the cash proceeds from the transfer of receivables to the Purchasers and Second 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 June 30, 2017 and December 31, 2016, the Company did not record a servicing asset or liability related to its retained responsibility, based on its assessment of the servicing fee, market values for similar transactions and its cost of servicing the receivables sold.

As of June 30, 2017 and December 31, 2016, the fair value of trade receivables transferred to the Purchasers and Second Purchasers under the Programs and derecognized from the Company’s consolidated balance sheet was $1.6 billion. In exchange for the transfer as of June 30, 2017 and December 31, 2016, the Company received cash of $1.2 billion and $1.0 billion and recorded a receivable for deferred consideration included in other current assets of $353 million and $540 million, respectively. Cash collections from customers on receivables sold were $16.5 billion and $16.1 billion for the six months ended June 30, 2017 and 2016, respectively. Of this amount, $16.5 billion and $16.0 billion pertain to cash collections on the deferred consideration for the six months ended June 30, 2017 and 2016, respectively. 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 the applicable accounting standards) consisting mainly of the face amount of the receivables adjusted for anticipated credit losses and discounted at the appropriate market rate. Payment of deferred consideration is not subject to significant risks other than delinquencies and credit losses on accounts receivable transferred under the Programs which have historically been insignificant.

Transfers of receivables under the Programs resulted in an expense for the loss on sale of $2 million and $1 million during the three months ended June 30, 2017 and 2016, respectively, and $4 million and $2 million for the six months ended June 30, 2017 and 2016, respectively, classified as selling, general, and administrative expenses in the consolidated statements of earnings.

The Company reflects all cash flows related to the Programs as operating activities in its consolidated statement of cash flows for the six months ended June 30, 2017 and 2016 because the cash received from the Purchasers and Second Purchasers upon both the sale and collection of the receivables is not subject to significantly different risks given the short-term nature of the Company’s trade receivables.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 17. Subsequent Events

On July 19, 2017, the Company announced that it has completed the acquisition of a 51% controlling interest in Industries Centers, an Israeli company specializing in the import and distribution of agricultural feed products, which will now be known as ADM Israel, for $10 million.

In July 2017, the Company announced that it is reconfiguring its Peoria, Illinois ethanol complex to focus on the more profitable high grade industrial and beverage alcohol as well as export fuel. Also in July 2017, the Company announced that as part of Project Readiness, it is reducing certain positions within its global workforce following a detailed review of its structure, organizational levels, spans of controls, degree of centralization of activities, organization of various staff activities, and leadership. The Company expects to record restructuring and impairment charges of approximately $80 million to $100 million pre-tax related to these actions in the third quarter of 2017.

On July 31, 2017, the Company announced a change to its U.S. salaried employee defined benefit pension plan (the ADM Retirement Plan). Effective December 31, 2021, the accrued pension benefits of active traditional formula plan participants will be frozen. Effective January 1, 2022, the impacted participants will begin participating in the Company's existing cash-balance pension plan formula for future benefit accruals. Due to the significance of this plan amendment, the Company will be undertaking a plan remeasurement in the third quarter of 2017.

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

Company Overview

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

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 163 countries. The Company also processes corn, oilseeds, and wheat 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 its shareholders, principally from margins earned on these activities.

The Company's operations are organized, managed and classified into four reportable business segments: Agricultural Services, Corn Processing, Oilseeds Processing, and Wild Flavors and Specialty Ingredients. 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. See Note 14 of "Notes to Consolidated Financial Statements" included in Item 1 herein, "Financial Statements" for more information about the Company's business segments.

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

- the acquisition in February 2017 of Crosswind Industries, Inc., an industry leader in the manufacture of contract and private label pet treats and foods, as well as specialty ingredients;
- the acquisition in February 2017 of an 89% ownership stake in Biopolis SL, a leading provider of microbial technology with a strong portfolio of novel food ingredients;
- the construction of a new feed-premix facility in Xiangtan, China, which is expected to be completed in 2019;
- the sale in May 2017 of the Company's crop risk services business to Validus Holdings, a global group of insurance and reinsurance companies;
- the completion in May 2017 of a series of major enhancements at the Company's export terminal in Santos, in the Brazilian state of Sao Paulo;
- the construction of a new flour mill in Mendota, Illinois, which is expected to be completed in 2019;
- the expansion of a Golden Peanut and Tree Nuts production facility in Blakely, Georgia, which is expected to be completed in 2018;
- the completion of a new silo located on the Danube River in Silistra, Bulgaria;
- the acquisition in June 2017 of Chamtor, a French producer of wheat-based sweeteners and starches; and
- the acquisition in July 2017 of a controlling interest in Industries Centers, an Israeli company specializing in the import and distribution of agricultural feed products, which will now be known as ADM Israel.

As part of the implementation of the Company's strategic plan, the Company continues to evaluate the capital intensity of its operations and portfolio, seeking ways to reduce and redeploy capital in its efforts to drive long-term returns.

Operating Performance Indicators

The Company is exposed to certain risks inherent to an agricultural-based commodity business. These risks are further described in Item 1A, "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

The Company's agricultural services and oilseeds processing 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 revenues and cost of products sold. Thus, changes in revenues of these businesses do not necessarily correspond to the changes in margins or gross profit.

The Company's corn processing operations and Wild Flavors and Specialty Ingredients businesses also utilize agricultural commodities (or products derived from agricultural commodities) as raw materials. However, in these operations, agricultural commodity market price changes do not necessarily equal changes in cost of products sold. Thus, changes in revenues of these businesses may correspond to changes in margins or gross profit.

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

The Company has consolidated subsidiaries in 76 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. Changes in revenues are expected to be correlated to changes in expenses reported by the Company caused by fluctuations in the exchange rates of foreign currencies, primarily the Euro, British pound, Canadian dollar, and Brazilian real, as compared to the U.S. dollar.

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

Market Factors Influencing Operations or Results in the Three Months Ended June 30, 2017

As an agricultural commodity-based business, the Company is subject to a variety of market factors which affect the Company's operating results. Agricultural Services was impacted by weak U.S. grain export competitiveness. Overall low market volatility continued due to surplus in the global market. In Corn Processing, demand and prices for sweeteners and starches remained solid in North America while co-product prices were stable. Ethanol continues to face a challenging environment. Although ethanol demand remained strong both in North America and export markets due to favorable gasoline blending economics and ethanol's continuing status as a competitive octane enhancer, U.S. industry ethanol production also remained at high levels, limiting margins. Global oilseeds crushed record volumes, although soy margins remained under pressure due to aggressive Argentina competition and slow meal demand growth due to competing proteins. Slow selling by farmers in Brazil continues to depress grain origination margins despite strong export volumes. Demand and margins for refined oil remained solid across all regions. Wild Flavors and Specialty Ingredients benefited from strong demand for flavor ingredients and flavor systems, specialty proteins, and edible bean products, but continued to be adversely affected by soft market conditions in certain non-flavor food ingredient markets.

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Net earnings attributable to controlling interests was $276 million in the second quarter of 2017 compared to $284 million in the second quarter of 2016. Segment operating profit was $642 million in the second quarter of 2017 compared to $680 million in the second quarter of 2016. Included in segment operating profit in the current quarter is a net charge of $16 million consisting of a net gain on sales of businesses, impairment, restructuring, and settlement charges, and corn hedge timing effects. Included in segment operating profit in the prior year quarter is income of $107 million consisting of a net gain on sales of assets and businesses/revaluation, impairment, restructuring, and settlement charges, and corn hedge timing effects. Adjusted segment operating profit increased $85 million to $658 million due to improved global merchandising results and solid results in Corn Processing, partially offset by weaker South American origination margins, lower soybean crush margins, and weaker results in some specialty ingredients. Corporate results were a charge of $259 million this quarter compared to $273 million in last year's quarter. Corporate results this quarter included a charge of $9 million from the effect of changing agricultural commodity prices on LIFO inventory valuation reserves, compared to a charge of $88 million in the second quarter of 2016.

Income taxes decreased $11 million to $108 million due to lower earnings before income taxes and a lower effective tax rate. The Company’s effective tax rate for the quarter ended June 30, 2017 decreased to 28.2% compared to 29.2% for the quarter ended June 30, 2016, primarily due to the forecasted geographic mix of pre-tax earnings and the effect of certain discrete adjustments, partially offset by the expiration of U.S. tax credits, including the biodiesel credit, at the end of 2016.

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

Analysis of Statements of Earnings

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

	Three Months Ended June 30,		
(In thousands)	2017	2016	Change
Oilseeds	8,518	8,468	50
Corn	5,840	5,087	753
Total	14,358	13,555	803

The Company generally operates its production facilities, on an overall basis, at or near capacity, adjusting facilities individually, as needed, to react to the current margin environment and seasonal local supply and demand conditions. The overall increase in corn relates to the strong demand environment for ethanol.

Revenues by segment for the quarter are as follows:

	Three Months Ended June 30,		
	2017	2016	Change
	(In millions)		
Agricultural Services			
Merchandising and Handling	$5,099	$5,506	$(407)
Milling and Other	698	825	(127)
Transportation	51	56	(5)
Total Agricultural Services	5,848	6,387	(539)
Corn Processing			
Sweeteners and Starches	1,077	1,037	40
Bioproducts	1,197	1,315	(118)
Total Corn Processing	2,274	2,352	(78)
Oilseeds Processing			
Crushing and Origination	3,911	4,033	(122)
Refining, Packaging, Biodiesel, and Other	2,094	2,041	53
Asia	67	25	42
Total Oilseeds Processing	6,072	6,099	(27)
Wild Flavors and Specialty Ingredients	648	680	(32)
Total Wild Flavors and Specialty Ingredients	648	680	(32)
Other - Financial	101	111	(10)
Total Other	101	111	(10)
Total	$14,943	$15,629	$(686)

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

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

Revenues decreased $0.7 billion to $14.9 billion due to lower average sales prices ($0.7 billion), including $0.1 billion from foreign currency translation impacts. The decrease in sales prices was due principally to a decrease in underlying agricultural commodity prices, in particular prices of soybeans, corn, meal, and wheat. Agricultural Services revenues decreased 8% to $5.8 billion due to lower sales volumes ($0.2 billion) and lower average sales prices ($0.3 billion). Corn Processing revenues decreased 3% to $2.3 billion due to lower average sales prices ($0.1 billion). Oilseeds Processing revenues of $6.1 billion were in line with the prior year's quarter with lower average sales prices ($0.2 billion) offset by higher sales volumes ($0.2 billion). Wild Flavors and Specialty Ingredients revenues of $0.6 billion were in line with the prior year's quarter.

Cost of products sold decreased $0.8 billion to $14.1 billion due principally to lower average commodity prices, including $0.1 billion from foreign currency translation impacts. Included in cost of products sold during this quarter is a charge of $9 million from the effect of changing agricultural commodity prices on LIFO inventory valuation reserves compared to a charge of $88 million in the prior year's quarter. Manufacturing expenses increased $0.1 billion to $1.3 billion due to higher salaries and benefits and increased expenses for gas and operating and maintenance supplies.

Gross profit increased $0.2 billion to $0.9 billion. The increase in gross profit consists principally of higher results in merchandising and handling ($61 million), sweeteners and starches ($12 million), ethanol ($33 million), biodiesel ($45 million) and peanuts ($12 million), partially offset by lower results in soybean processing ($85 million). These factors are explained in the segment operating profit discussion starting on page 39. Current period gross profit includes a charge of $9 million from the effect of changing agricultural commodity prices on LIFO inventory valuation reserves compared to a charge of $88 million during the same period last year. The decrease in underlying commodity prices from the prior year quarter did not result in a significant decrease in margins or gross profit as lower underlying commodity prices had a relatively equal impact on revenues and cost of products sold.

Selling, general, and administrative expenses increased $31 million to $531 million due principally to higher salaries and benefits cost related to increased investments in the Company's business transformation, IT, and innovation initiatives and higher bonus accruals.

Asset impairment, exit, and restructuring charges increased $11 million to $23 million. Current period charges consisted of $7 million of asset impairments in the Agricultural Services segment, $6 million of asset impairments in the WFSI segment, $4 million of other individually insignificant asset impairments, and $6 million of restructuring charges. Prior period charges included $5 million of asset impairments in the Corn Processing segment and $7 million of other individually insignificant asset impairments and restructuring charges.

Interest expense increased $21 million to $86 million due principally to higher interest rates on short-term debt, the issuance of the $1 billion fixed-rate notes in August 2016, and interest related to a prior year foreign income tax amended return, partially offset by the retirement of the $261 million bond that matured in April 2017. Interest expense in the prior period also included a credit of $8 million for the revaluation of the mandatorily redeemable 10% interest in Harvest Innovations.

Equity in earnings of unconsolidated affiliates increased $19 million to $109 million primarily due to higher earnings from the Company's investment in Wilmar resulting from the increased ownership stake in and higher results from Wilmar, partially offset by lower results from the Company's equity investment in CIP.

Other income decreased $132 million to $2 million. Current period income includes gains related to the sale of the crop risk services business and disposals of individually insignificant assets in the ordinary course of business, partially offset by an adjustment of the proceeds of the 2015 sale of the cocoa business, foreign exchange losses, and changes in contingent settlement provisions. Prior period income included realized additional consideration related to the sale of the Company's equity investment in Gruma S.A.B. de C.V. in December 2012, recovery of loss provisions as well as gain related to the sale of the Company's Brazilian sugar ethanol facilities, and gain related to the revaluation of the remaining interest to settlement value in conjunction with the acquisition of the remaining interest in Amazon Flavors.

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

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

Segment Operating Profit	Three Months Ended June 30, 2017	2016	Change
	(In millions)		
Agricultural Services			
Merchandising and Handling	$40		$(14)