ARCHER DANIELS MIDLAND CO
Form 10-K
August 29, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-K

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

For the fiscal year ended June 30, 2008

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<br>(State or other jurisdiction of incorporation or organization) | 41-0129150<br>(I. R. S. Employer Identification No.) |
| 4666 Faries Parkway Box 1470 Decatur, Illinois<br>(Address of principal executive offices) | 62525<br>(Zip Code) |

217-424-5200
(Registrant's telephone number, including area code)

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, no par value | New York Stock Exchange<br>Frankfurt Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

| | |
|---|---|
| Large Accelerated Filer x | Accelerated Filer o |
| Non-accelerated Filer o | Smaller Reporting Company o |

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Common Stock, no par value--$29.2 billion
(Based on the closing sale price of Common Stock as reported on the New York Stock Exchange
as of December 31, 2007)

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

Common Stock, no par value—644,267,509 shares
(July 31, 2008)

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the annual meeting of stockholders to be held November 6, 2008, are incorporated by reference into Part III.

SAFE HARBOR STATEMENT

This Form 10-K contains forward-looking information that is subject to certain risks and uncertainties that could cause actual results to differ materially from those projected, expressed, or implied by such forward-looking information. In some cases, you can identify forward-looking statements by our use of words such as "may, will, should, anticipates, believes, expects, plans, future, intends, could, estimate, predict, potential or contingent," the negative of these terms or other similar expressions. The Company's actual results could differ materially from those discussed or implied herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Form 10-K for the fiscal year ended June 30, 2008. Among these risks are legislative acts; changes in the prices of food, feed, and other commodities, including gasoline; and macroeconomic conditions in various parts of the world. To the extent permitted under applicable law, the Company assumes no obligation to update any forward-looking statements as a result of new information or future events.

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# PART I

## Item 1. BUSINESS

### Company Overview

Archer Daniels Midland Company (the Company) was incorporated in Delaware in 1923, successor to the Daniels Linseed Co. founded in 1902. The Company is one of the world's largest processors of oilseeds, corn, wheat, cocoa, and other feedstuffs and is a leading manufacturer of soybean oil and protein meal, corn sweeteners, flour, biodiesel, ethanol, and other value-added food and feed ingredients. The Company also has an extensive grain elevator and transportation network to procure, store, clean, and transport agricultural commodities, such as oilseeds, corn, wheat, milo, oats, and barley.

During the past five years, the Company has experienced significant growth, spending approximately $5.3 billion for construction of new plants, maintenance and expansions of existing plants, and the acquisitions of plants and transportation equipment. The Company is constructing two dry corn milling plants which will increase the Company's annual ethanol production capacity by 550 million gallons to 1.7 billion gallons. In addition, the Company is currently constructing a polyhydroxy alkanoate (PHA) natural plastics production facility, a propylene/ethylene glycol production facility, two cocoa processing facilities, and two coal cogeneration facilities. Construction of these plants is expected to be completed during the next two fiscal years. The Company expects to spend approximately $2.5 billion to complete construction of these facilities and other approved capital projects over the next five years. There have been no significant dispositions during the last five years.

### Segment Descriptions

The Company's operations are classified into three reportable business segments: Oilseeds Processing, Corn Processing, and Agricultural Services. Each of these segments is organized based upon the nature of products and services offered. The Company's remaining operations are aggregated and classified as Other. Financial information with respect to the Company's reportable business segments is set forth in "Note 14 of Notes to Consolidated Financial Statements" included in Item 8 herein, "Financial Statements and Supplementary Data."

### Oilseeds Processing

The Company is engaged in processing oilseeds such as soybeans, cottonseed, sunflower seeds, canola, peanuts, and flaxseed into vegetable oils and protein meals in North America, Europe, South America and Asia principally for the food and feed industries. Crude vegetable oil is sold "as is" or is further processed by refining, bleaching, and deodorizing into salad oils. Salad oils can be further processed by hydrogenating and/or interesterifying into margarine, shortening, and other food products. Partially refined oil is sold for use in chemicals, paints and other industrial products. Refined oil can be further processed for use in the production of biodiesel. Oilseed meals are primary ingredients used in the manufacture of commercial livestock and poultry feeds. Cottonseed flour is produced and sold primarily to the pharmaceutical industry. Cotton cellulose pulp is manufactured and sold to the chemical, paper, and filter markets. Lecithin, an emulsifier produced in the vegetable oil refining process, is marketed as a food and animal feed ingredient.

The Company produces a wide range of edible soy protein products including soy flour, soy grits, soy protein concentrates and soy isolates that are used in processed meats, baked foods, nutritional products, snacks, and dairy and meat analogs.

The Company produces natural source vitamin E, tocopherol antioxidants and phytosterols from co-products of oilseeds which are marketed to the dietary supplement and food industry. The Company produces soy isoflavones, a dietary supplement, from a co-product of edible soy processing.

In South America, the Company is also a supplier of fertilizer products.

Item 1. BUSINESS (Continued)

Golden Peanut Company LLC, a joint venture between the Company and Alimenta (U.S.A.), Inc., is a major supplier of peanuts to both the domestic and export markets. The Company has a 50% ownership interest in this joint venture.

The Company has a 16.1% ownership interest in Wilmar International Limited, a Singapore publicly-listed company. Wilmar International Limited is the largest agricultural processing business in Asia and operates palm plantations; soybean, rapeseed, cottonseed, sunflower seed, peanut, palm kernel, and sesame seed crushing facilities and related vegetable oil refineries and packaging facilities; an oleochemical plant that produces fatty acids, glycerin, and soap noodles; a soy protein plant; wheat flour mills; rice mills; feed mills; fertilizer operations; and related silos and storage facilities.

Corn Processing

The Company is engaged in wet milling and dry milling corn operations primarily in the United States. Products produced for use in the food and beverage industry include syrup, starch, glucose, dextrose, and sweeteners. Dextrose is also produced for use by the Company as a feedstock for its bioproducts operations. 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 as an oilseed into vegetable oil and protein meal.

By fermentation of dextrose, the Company produces alcohol, amino acids, and other specialty food and animal feed ingredients. Ethyl alcohol is produced to beverage grade or for industrial use as ethanol. In gasoline, ethanol increases octane and is used as an extender and oxygenate. Amino acids, such as lysine and threonine, are vital compounds used in swine feeds to produce leaner animals and in poultry feeds to enhance the speed and efficiency of poultry production. The Company also produces, by fermentation, astaxanthin, a product used in aquaculture to enhance flesh coloration. The Company produces citric and lactic acids, lactates, sorbitol and xanthan gum which are used in various food and industrial products.

Almidones Mexicanos S.A., in which the Company has a 50% interest, operates a wet corn milling plant in Mexico.

Eaststarch C.V. (Netherlands), in which the Company has a 50% interest, owns interests in companies that operate wet corn milling plants in Bulgaria, Hungary, Romania, Slovakia, and Turkey.

The Company has a 50% interest in Telles, LLC (Telles), a joint venture formed between the Company and Metabolix to market and sell PHA, which will be produced in a facility being constructed by the Company which is expected to be completed during fiscal 2009.

Red Star Yeast Company, LLC produces and sells fresh and dry yeast in the United States and Canada. The Company has a 40% ownership interest in this joint venture.

Agricultural Services

The Agricultural Services segment utilizes the Company’s extensive grain elevator and transportation network in the United States to buy, store, clean, and transport agricultural commodities, such as oilseeds, corn, wheat, milo, oats, and barley, and resells these commodities primarily as animal feed ingredients and as raw materials for the agricultural processing industry. Agricultural Services’ grain sourcing and transportation network provides reliable and efficient services to the Company’s agricultural processing operations. Agricultural Services’ transportation network capabilities include ground, river, rail, and ocean services which provide the flexibility to transport agricultural commodities timely and efficiently to the end consumer or the Company’s agricultural processing operations.

Item 1. BUSINESS (Continued)

The Company processes and distributes edible beans in the United States for use as a food ingredient. The Company produces and distributes formula feeds and animal health and nutrition products to the livestock, dairy, poultry, and pet food industries.

A.C. Toepfer International (Toepfer), in which the Company has an 80% interest, is a global merchandiser of agricultural commodities and processed products. Toepfer has 38 sales offices worldwide and operates export, river, and country elevators in Argentina, Romania, Ukraine, and the United States.

The Company has a 45% interest in Kalama Export Company, a grain export elevator in Washington.

Other

The Company is engaged in milling wheat, corn, and milo into flour in the United States, Canada, the Caribbean, and the United Kingdom. Wheat flour is sold primarily to commercial bakeries, food companies, food service companies, and retailers. Bulgur, a gelatinized wheat food, is sold to both the export and the domestic food markets. Corn meal and flour is sold primarily to the cereal, snack, and bakery mix markets. The Company produces bakery products and mixes, wheat starch, and gluten which are sold to the baking industry. The Company also mills milo to produce industrial flour used in the manufacturing of wallboard for the building industry.

Gruma S.A. de C.V.(Gruma), in which the Company has a 23% interest, is the world's largest producer and marketer of corn flour and tortillas with operations in the United States, Mexico, Central America, South America, and Europe. Additionally, the Company has a 20% share, through a joint venture with Gruma, in six U.S. corn flour mills. The Company also has a 40% share, through a joint venture with Gruma, in nine Mexican-based wheat flour mills.

The Company processes cocoa beans and produces cocoa liquor, cocoa butter, cocoa powder, chocolate, and various compounds in North America, South America, Europe, Asia, and Africa for the food processing industry.

The Company sold its interest in International Malting Company (IMC), a wholly-owned subsidiary of the Company, which operated malting barley plants in the United States, Australia, New Zealand, and Canada on July 31, 2008.

Hickory Point Bank and Trust Company, fsb, a wholly-owned subsidiary of the Company, furnishes public banking and trust services, as well as cash management, transfer agency, and securities safekeeping services, for the Company.

ADM Investor Services, Inc., a wholly-owned subsidiary of the Company, is a registered futures commission merchant and a clearing member of all principal commodities exchanges. ADM Investor Services International, Ltd., ADMIS Hong Kong Limited, and ADM Investor Services Taiwan are wholly-owned subsidiaries of the Company offering broker services in Europe and Asia. ADM Derivatives, Inc. offers foreign exchange services to institutional and retail clients.

Agrinational Insurance Company, a wholly-owned subsidiary of the Company, provides insurance coverage for certain property, casualty, marine, and other miscellaneous risks of the Company and participates in certain third-party reinsurance arrangements.

The Company is a limited partner in various private equity funds which invest primarily in emerging markets.

Item 1. BUSINESS (Continued)

Corporate

Compagnie Industrielle et Financiere des produits Amylaces SA (Luxembourg) and affiliates, of which the Company has a 41.5% interest, is a joint venture which targets investments in food, feed ingredients and bioenergy businesses.

Methods of Distribution

Since the Company's customers are principally other manufacturers and processors, the Company's products are distributed mainly in bulk from processing plants or storage facilities directly to the customers' facilities. The Company has developed a comprehensive transportation system utilizing trucks, railcars, river barges, and ocean-going vessels to efficiently move both commodities and processed products virtually anywhere in the world. The Company owns or leases large numbers of the trucks, trailers, railroad tank and hopper cars, river barges, and towboats used in this transportation system.

Concentration of Sales by Product

The following products account for 10% or more of net sales and other operating income for the last three fiscal years:

| | % of Net Sales and Other Operating Income | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| Soybeans | 16% | 12% | 14% |
| Corn | 14% | 15% | 12% |
| Soybean Meal | 11% | 12% | 13% |
| Wheat | 10% | 8% | 8% |

Status of New Products

The Company continues to expand its business through the development of new products to meet the growing demands for food, animal feed, chemicals and energy.

The Company's researchers continue to develop custom low-trans fats and oils for bakery and quick-service restaurants that utilize the Company's Novalipid portfolio of low-trans fats and oils. These products have enabled customers to comply with various municipal trans fat bans.

The Company's cooked, dried edible bean products are finding a number of new applications due to the increased interest among our customers in improving nutrition, especially in the area of foods designed for children.

The Company's alliance with Metabolix for production of PHA, a biodegradable plastic, is proceeding. Semi-works production of PHA is being used for market development by Telles, a joint-venture company between the Company and Metabolix. The construction of the Company's 50,000 metric ton per year commercial manufacturing facility is scheduled for completion in fiscal 2009.

The Company is proceeding with construction of a 100,000 metric ton per year commercial propylene/ethylene glycol facility. These products are principally used in industrial applications such as antifreeze and coolants, the manufacture of certain plastics, and paints and coatings.

The Company has entered into a joint development agreement with ConocoPhillips that will develop renewable transportation fuels from agriculture, forestry, and crops grown specifically for energy. This development effort is focused on the production of bio-crude oil that can be used by conventional petroleum refineries to produce transportation fuels.

Item 1. BUSINESS (Continued)

Source and Availability of Raw Materials

Substantially all of the Company's raw materials are agricultural commodities. In any single year, the availability and price of these commodities are subject to unpredictable factors such as weather, plantings, government programs and policies, changes in global demand created by population growth and changes in standards of living, and global production of similar and competitive crops. The Company's raw materials are procured from thousands of growers, grain elevators, and wholesale merchants, principally in North America, South America, and Europe, pursuant to short-term agreements (less than one year) or on a spot basis. The Company is not dependent upon any particular grower, elevator, or merchant as a source for its raw materials.

Patents, Trademarks, and Licenses

The Company owns several valuable patents, trademarks, and licenses but does not consider any segment of its business dependent upon any single or group of patents, trademarks or licenses.

Seasonality, Working Capital Needs, and Significant Customers

Since the Company is so widely diversified in global agribusiness markets, there are no material seasonal fluctuations in the manufacture, sale, and distribution of its products and services. There is a degree of seasonality in the growing cycles, procurement, and transportation of the Company's principal raw materials: oilseeds, corn, wheat, cocoa beans, and other grains. However, the physical movement of the millions of bushels of these crops through the Company's processing facilities is reasonably constant throughout the year.

Price variations and availability of raw agricultural commodities may cause fluctuations in the Company's working capital levels. No material part of the Company's business in any segment is dependent upon a single customer or very few customers.

Competition

The Company has significant competition in the markets in which it operates based principally on price, quality, products and alternative products, some of which are made from different raw materials than those utilized by the Company. Given the commodity-based nature of many of its businesses, the Company, on an ongoing basis, focuses on managing unit costs and improving efficiency through technology improvements, productivity enhancements, and regular evaluation of the Company's asset portfolio.

Research and Development Expenditures

The Company's research and development expenditures are focused on developing food, animal feed, chemical, and energy products from renewable agricultural crops.

The Company maintains a research laboratory in Decatur, Illinois, where product and process development activities are conducted. Activities include the development of new bioproducts and the improvement of existing bioproducts, by utilizing new microbial strains that are developed using classical mutation and genetic engineering. Protein and vegetable oil research is also conducted in Decatur where bakery, meat and dairy pilot plants support food ingredient research. Vegetable oil research is also conducted in Hamburg, Germany; Erith, UK; and Arras, France. Research in Hamburg, Germany was expanded this year to include capabilities for biodiesel and oleochemicals. Research to support sales and development of flour and bakery products is conducted at a newly-constructed laboratory in

Overland Park, Kansas. Sales and development support for cocoa and chocolate products is performed in Milwaukee, Wisconsin, and the Netherlands. Research and technical support for industrial and food wheat starch applications is conducted in Montreal, Canada. The Company has consolidated its research facilities by closing the Clinton, Iowa and Decatur, Indiana research locations and relocating staff to the research center in Decatur, Illinois.

Item 1. BUSINESS (Continued)

The Company uses technical services representatives to interact with customers to understand the customers' product needs. These technical service representatives then interact with researchers who are familiar with the Company's wide range of products as well as applications technology. These individuals form quick-acting teams to develop solutions to customer needs.

The Company has entered into a new cooperative research and development agreement with Pacific Northwest National Laboratory which is focused on hydrothermal liquefaction of biomass to biocrude oils. This agreement is part of the effort being undertaken to support a joint development project with ConocoPhillips.

The Company has begun research related to the recently awarded funding from the Department of Energy to develop yeasts capable of fermenting 5-carbon sugars, which is a key technology for producing ethanol from lignocellulosic biomass. The Company is partnered with Purdue University on this project.

The amounts spent during the three years ended June 30, 2008, 2007 and 2006 for such technical efforts were approximately $49 million, $45 million, and $45 million, respectively.

Environmental Compliance

During the year ended June 30, 2008, $125 million was spent for equipment, facilities, and programs for pollution control and compliance with the requirements of various environmental agencies.

There have been no material effects upon the earnings and competitive position of the Company resulting from compliance with federal, state, and local laws or regulations enacted or adopted relating to the protection of the environment.

Number of Employees

The number of persons employed by the Company was approximately 27,600 at June 30, 2008.

Financial Information About Foreign and Domestic Operations

Item 1A, "Risk Factors," and Item 2, "Properties," includes information relating to the Company's foreign operations. Geographic financial information is set forth in "Note 14 of Notes to Consolidated Financial Statements" included in Item 8 herein, "Financial Statements and Supplementary Data".

Available Information

The Company's Internet address is http://www.admworld.com. The Company makes available, free of charge, through its Internet site, the Company's annual reports on Form 10-K; quarterly reports on Form 10-Q; current reports on Form 8-K; Directors and Officers Forms 3, 4, and 5; and amendments to those reports, as soon as reasonably practicable after electronically filing such materials with, or furnishing them to, the Securities and Exchange Commission (SEC).

In addition, the Company makes available, through its Internet site, the Company's Business Code of Conduct and Ethics, Corporate Governance Guidelines, and the written charters of the Audit, Compensation/Succession, Nominating/Corporate Governance, and Executive Committees.

References to our website addressed in this report are provided as a convenience and do not constitute, or should not be viewed as, an incorporation by reference of the information contained on, or available through, the website. Therefore, such information should not be considered part of this report.

Item 1. BUSINESS (Continued)

The public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site which contains reports, proxy and information statements, and other information regarding issuers that file information electronically with the SEC. The SEC's Internet address is http://www.sec.gov.

Item 1A. RISK FACTORS

The availability and price of the agricultural commodities and agricultural commodity products the Company produces and merchandises can be affected by weather, disease, government programs, competition, and various other factors beyond the Company's control and could adversely affect the Company's operating results.

The availability and price of agricultural commodities are subject to wide fluctuations due to unpredictable factors such as weather, plantings, government programs and policies, changes in global demand resulting from population growth and changes in standards of living, and global production of similar and competitive crops. These factors have historically caused volatility in the agricultural commodities industry and, consequently, in the Company's operating results. Reduced supply of agricultural commodities due to weather-related factors or other reasons could adversely affect the Company's profitability by increasing the cost of raw materials used in the Company's agricultural processing operations. Reduced supplies of agricultural commodities could also limit the Company's ability to procure, transport, store, process, and merchandise agricultural commodities in an efficient manner which could adversely affect the Company's profitability. In addition, the availability and price of agricultural commodities can be affected by other factors, such as plant disease, which can result in crop failures and reduced harvests.

Also, with respect to prices, to the extent production capacity is added within the agricultural processing industry, the disruption to the balance of supply and demand may result in increased raw material costs and/or downward pressure on the relevant product selling prices, thereby adversely affecting revenues and operating results.

Fluctuations in energy prices could adversely affect the Company's operating results.

The Company's operating costs and the selling prices of certain finished products are sensitive to changes in energy prices. The Company's processing plants are powered principally by electricity, natural gas, and coal. The Company's transportation operations are dependent upon diesel fuel and other petroleum products. Significant increases in the cost of these items could adversely affect the Company's production costs and operating results.

The Company has certain finished products, such as ethanol and biodiesel, which are closely related to, or may be substituted for, petroleum products. Therefore, the selling prices of ethanol and biodiesel can be impacted by the selling prices of gasoline and diesel fuel. A significant decrease in the price of gasoline or diesel fuel could result in a significant decrease in the selling price of the Company's ethanol and biodiesel and could adversely affect the Company's revenues and operating results.

The Company is subject to economic downturns, political instability and other risks of doing business globally which could adversely affect the Company's operating results.

The Company conducts its business and has substantial assets located in many countries and geographic areas. The Company's operations are principally in the United States and developed countries in Western Europe and South America, but the Company also operates in, or plans to expand or develop its business in, emerging market areas such as Asia, Eastern Europe, and Africa. Both developed and emerging market areas are subject to economic downturns and emerging market areas could be subject to more volatile economic, political and market conditions. Such economic downturns and volatile conditions may have a negative impact on the Company’s ability to execute its business strategies and on its operating results.

Item 1A. RISK FACTORS (Continued)

The Company's operating results could be affected by changes in trade, monetary and fiscal policies, laws and regulations, and other activities of governments, agencies, and similar organizations. These conditions include but are not limited to changes in a country's or region's economic or political conditions, trade regulations affecting production, pricing and marketing of products, local labor conditions and regulations, reduced protection of intellectual property rights, changes in the regulatory or legal environment, restrictions on currency exchange activities, currency exchange fluctuations, burdensome taxes and tariffs, enforceability of legal agreements and judgments, and other trade barriers. International risks and uncertainties, including changing social and economic conditions as well as terrorism, political hostilities, and war, could limit the Company's ability to transact business in these markets and could adversely affect the Company's revenues and operating results.

Government policies and regulations, in general, and specifically affecting the agricultural sector and related industries, could adversely affect the Company's operating results.

Agricultural production and trade flows are subject to government policies and regulations. Governmental policies affecting the agricultural industry, such as taxes, tariffs, duties, subsidies, incentives, and import and export restrictions on agricultural commodities and commodity products, can influence the planting of certain crops, the location and size of crop production, whether unprocessed or processed commodity products are traded, the volume and types of imports and exports, the availability and competitiveness of feedstocks as raw materials, and industry profitability. In addition, international trade disputes can adversely affect agricultural commodity trade flows by limiting or disrupting trade between countries or regions. Future government policies may adversely affect the supply of, demand for, and prices of the Company's products, restrict the Company's ability to do business in its existing and target markets, and could negatively impact revenues and operating results.

The Company is subject to industry - specific risks which could adversely affect the Company's operating results.

The Company is subject to risks which include, but are not limited to, product quality or contamination, shifting consumer preferences, federal, state, and local food processing regulations, and customer product liability claims. The liability which could result from these risks may not always be covered by, or could exceed liability insurance related to product liability and food safety matters maintained by the Company. The occurrence of any of the matters described above could adversely affect the Company's revenues and operating results.

Certain of the Company's merchandised commodities and finished products are used as ingredients in livestock and poultry feed. The Company is subject to risks associated with the outbreak of disease in livestock and poultry, including, but not limited to, mad-cow disease and avian influenza. The outbreak of disease could adversely affect demand for the Company's products used as ingredients in livestock and poultry feed. A decrease in demand for these products could adversely affect the Company's revenues and operating results.

The Company is subject to numerous laws and regulations globally which could adversely affect the Company's operating results.

The Company is required to comply with the numerous and broad reaching laws and regulations administered by United States federal, state, local, and foreign governmental agencies relating to, but not limited to, the sourcing, transporting, storing, and processing of agricultural raw materials as well as the transporting, storing and distributing of related agricultural products including commercial activities conducted by Company employees and third parties globally. Any failure to comply with applicable laws and regulations could subject the Company to administrative penalties and injunctive relief, civil remedies, including fines, injunctions, and recalls of its products.

The production of the Company's products requires the use of materials which can create emissions of certain regulated substances. Although the Company has programs in place throughout the organization globally to guard against non-compliance, failure to comply with these regulations can have serious consequences, including civil and administrative penalties as well as a negative impact on the Company's reputation.

Item 1A. RISK FACTORS (Continued)

In addition, changes to regulations may require the Company to modify existing processing facilities and/or processes which could significantly increase operating costs and negatively impact operating results.

The Company is exposed to potential business disruption, including but not limited to transportation services, and other serious adverse impacts resulting from acts of terrorism or war, natural disasters and severe weather conditions, and accidents which could adversely affect the Company’s operating results.

The assets and operations of the Company are subject to damage and disruption from various events which include, but are not limited to, acts of terrorism or war, natural disasters and severe weather conditions, accidents, explosions, and fires.

The potential effects of the conditions cited above include, but are not limited to, extensive property damage, extended business interruption, personal injuries, and damage to the environment. The Company’s operations also rely on dependable and efficient transportation services. A disruption in transportation services could result in supply problems at the Company’s facilities and impair the Company’s ability to deliver products to its customers in a timely manner.

The Company’s business is capital intensive in nature and the Company relies on cash generated from its operations and external financing to fund its growth and ongoing capital needs. Limitations on access to external financing could adversely affect the Company’s operating results.

The Company requires significant capital to operate its current business and fund its growth strategy. The Company’s working capital requirements are directly affected by the price of agricultural commodities, which may fluctuate significantly and change quickly. The Company also requires substantial capital to maintain and upgrade its extensive network of storage facilities, processing plants, refineries, mills, ports, transportation assets and other facilities to keep pace with competitive developments, technological advances, regulations and changing safety standards in the industry. Moreover, the expansion of the Company’s business and pursuit of acquisitions or other business opportunities may require significant amounts of capital. If the Company is unable to generate sufficient cash flows or raise adequate external financing, it may restrict the Company’s current operations and its growth opportunities which could adversely affect the Company’s operating results

The Company’s risk management strategies may not be effective.

The Company’s business is affected by fluctuations in agricultural commodity prices, transportation costs, energy prices, interest rates, and foreign currency exchange rates. We engage in hedging transactions to manage these risks. However, our hedging strategies may not be successful in mitigating our exposure to these fluctuations. See “Item 7A. Quantitative and Qualitative Disclosures About Market Risk.”

Item 1B. UNRESOLVED STAFF COMMENTS

The Company has no unresolved staff comments.

## Item 2. PROPERTIES

The Company owns or leases the following processing plants and procurement facilities:

| | Processing Plants | | | Procurement Facilities | | |
|---|---|---|---|---|---|---|
| | United States | International | Total | United States | International | Total |
| Owned | 131 | 97 | 228 | 176 | 104 | 280 |
| Leased | 2 | 2 | 4 | 19 | 29 | 48 |
| | 133 | 99 | 232 | 195 | 133 | 328 |

The Company's operations are such that most products are efficiently processed near the source of raw materials. Consequently, the Company has many plants strategically located in agricultural commodity producing areas. The annual volume of commodities processed will vary depending upon availability of raw materials and demand for finished products.

To enhance the efficiency of transporting large quantities of raw materials and finished products between the Company's procurement facilities and processing plants and also the final delivery of products to our customers around the world, the Company owns or leases over 2,200 barges, 23,700 rail cars, 800 trucks, and 2,100 trailers.

### Oilseeds Processing

| | Processing Plants | | | Procurement Facilities | | |
|---|---|---|---|---|---|---|
| | United States | International | Total | United States | International | Total |
| Owned | 53 | 56 | 109 | 15 | 80 | 95 |
| Leased | – | – | – | – | 20 | 20 |
| | 53 | 56 | 109 | 15 | 100 | 115 |

The Company operates twenty-three domestic and eighteen international oilseed crushing plants with a daily processing capacity of approximately 91,000 metric tons (3.4 million bushels). The domestic plants are located in Georgia, Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Carolina, Tennessee, and Texas. The international plants are located in Bolivia, Brazil, Canada, England, Germany, India, Mexico, the Netherlands, Poland, and Ukraine.

The Company operates thirteen domestic oilseed refineries in Georgia, Illinois, Indiana, Iowa, Minnesota, Missouri, Nebraska, North Dakota, and Tennessee, as well as seventeen international refineries in Bolivia, Brazil, Canada, England, Germany, India, the Netherlands, and Poland. The Company packages oils at five domestic plants located in California, Georgia, and Illinois, as well as at seven international plants located in Bolivia, Brazil, England, Poland and Germany. The Company operates one domestic and six international biodiesel plants located in North Dakota, Brazil, Germany, and India. In addition, the Company operates two fertilizer blending plants in Brazil.

The Oilseeds Processing segment operates fifteen domestic country grain elevators as adjuncts to its processing plants. These elevators, with an aggregate storage capacity of eight million bushels, are located in Illinois, Missouri, North Carolina, and Ohio.

This segment also operates one hundred international elevators, including port facilities, in Bolivia, Brazil, Canada, Germany, the Netherlands, Paraguay, and Poland as adjuncts to its processing plants. These facilities have a storage capacity of 125 million bushels.

The Company operates two soy protein specialty plants in Illinois and one plant in the Netherlands. Lecithin products are produced at six domestic and four international plants in Illinois, Iowa, Nebraska, Canada, Germany, and the Netherlands. The Company produces soy-based foods at a plant in North Dakota and vitamin E, sterols, and isoflavones at plants in Illinois. The Company also operates a specialty oils and fats plant in France that produces various value-added products for the pharmaceutical, cosmetic and food industries.

Item 2. PROPERTIES (Continued)

Corn Processing

| | Processing Plants | | | Procurement Facilities | | |
|---|---|---|---|---|---|---|
| | United States | International | Total | United States | International | Total |
| Owned | 13 | – | 13 | 5 | – | 5 |

The Company operates five wet corn milling plants and two dry corn milling plants with a daily grind capacity of approximately 50,000 metric tons (2.0 million bushels). The Company also operates corn germ extraction plants, sweeteners and starches production facilities, and bioproducts production facilities in Illinois, Iowa, Minnesota, Nebraska, North Carolina, and North Dakota. The Corn Processing segment also operates five domestic grain terminal elevators as adjuncts to its processing plants. These elevators, with an aggregate storage capacity of 13 million bushels, are located in Minnesota.

Agricultural Services

| | Processing Plants | | | Procurement Facilities | | |
|---|---|---|---|---|---|---|
| | United States | International | Total | United States | International | Total |
| Owned | 29 | 6 | 35 | 156 | 18 | 174 |
| Leased | 2 | 1 | 3 | 19 | 7 | 26 |
| | 31 | 7 | 38 | 175 | 25 | 200 |

The Company operates one hundred fifty-two domestic terminal, sub-terminal, country, and river elevators covering the major grain producing states, including sixty-four country elevators, eighty sub-terminal, terminal and river loading facilities, and eight grain export elevators in Florida, Louisiana, Ohio, and Texas. Elevators are located in Arkansas, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana, Nebraska, North Dakota, Ohio, Oklahoma, Tennessee, and Texas. These elevators have an aggregate storage capacity of approximately 356 million bushels. The Company has five grain export elevators in Argentina, Mexico, and Ukraine that have an aggregate storage capacity of approximately 29 million bushels. The Company has thirteen country elevators located in the Dominican Republic, Romania, and Ukraine. In addition, the Company has seven river elevators located in Romania and Ukraine.

The Company operates twenty-three domestic edible bean procurement facilities with an aggregate storage capacity of approximately 11 million bushels, located in Colorado, Idaho, Michigan, Minnesota, North Dakota, and Wyoming.

The Company operates a rice mill located in California, an animal feed facility in Illinois, and an edible bean plant in North Dakota. The Company also operates twenty-eight domestic and seven international formula feed and animal health and nutrition plants. The domestic plants are located in Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, Ohio, Pennsylvania, Texas, Washington, and Wisconsin. The foreign plants are located in Canada, China, Puerto Rico, and Trinidad & Tobago.

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Item 2. PROPERTIES (Continued)

Other

| | Processing Plants | | | Procurement Facilities | | |
|---|---|---|---|---|---|---|
| | United States | International | Total | United States | International | Total |
| Owned | 36 | 35 | 71 | – | 6 | 6 |
| Leased | – | 1 | 1 | – | 2 | 2 |
| | 36 | 36 | 72 | – | 8 | 8 |

The Company operates twenty-three domestic wheat flour mills, a domestic bulgur plant, two domestic corn flour mills, two domestic milo mills, and twenty international flour mills with a total daily milling capacity of approximately 27,000 metric tons (1.0 million bushels). The Company also operates six bakery mix plants. These plants and related properties are located in California, Illinois, Indiana, Kansas, Minnesota, Missouri, Nebraska, New York, North Carolina, Oklahoma, Pennsylvania, Tennessee, Texas, Washington, Barbados, Belize, Canada, England, Grenada, and Jamaica. The Company operates two formula feed plants as adjuncts to the wheat flour mills in Belize and Grenada, a rice milling plant in Jamaica, and a starch and gluten plant in Iowa and one in Canada. The Company also operates a honey drying operation in Wisconsin.

The Company operates three domestic and nine international chocolate and cocoa bean processing plants with a total daily grind capacity of approximately 2,200 metric tons. The domestic plants are located in Massachusetts, New Jersey, and Wisconsin, and the international plants are located in Brazil, Canada, England, Ivory Coast, the Netherlands, and Singapore. The Company operates eight cocoa bean procurement and handling facilities/port sites in Brazil, Indonesia, Ivory Coast, and Malaysia.

Item 3. LEGAL PROCEEDINGS

Environmental Matters

The United States Environmental Protection Agency and the Missouri Department of Natural Resources have initiated a criminal investigation of the wastewater discharge practices at one of the Company's barge facilities in Missouri. Since February 2008, several employees at the facility have received grand jury subpoenas relating to wastewater discharges from the facility. The Company has been cooperating with the investigation. The Company has also undertaken an internal investigation of those discharge practices and does not believe that the filing of any criminal action would be appropriate. The Company does not yet have enough information to reasonably estimate any penalty that may be imposed if any enforcement action is brought.

The Company is involved in approximately twenty administrative and judicial proceedings in which it has been identified as a potentially responsible party (PRP) under the federal Superfund law and its state analogs for the study and cleanup of sites contaminated by material discharged into the environment. In all of these matters there are numerous PRPs. Due to various factors, such as the required level of remediation and participation in the cleanup effort by others, the Company's future cleanup costs at these sites cannot be reasonably estimated.

In management's opinion, these proceedings will not, either individually or in the aggregate, have a material adverse affect on the Company's financial condition or results of operations.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

# PART II

## Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock Market Prices and Dividends

The Company's common stock is listed and traded on the New York Stock Exchange and the Frankfurt Stock Exchange. The following table sets forth, for the periods indicated, the high and low market prices of the common stock as reported on the New York Stock Exchange and common stock cash dividends declared per share.

| | Market Price | | Cash Dividends |
|---|---|---|---|
| | High | Low | Per Share |
| Fiscal 2008-Quarter Ended | | | |
| June 30 | $ 48.95 | $ 31.65 | $ 0.130 |
| March 31 | 47.18 | 38.11 | 0.130 |
| December 31 | 47.33 | 32.43 | 0.115 |
| September 30 | 37.02 | 31.28 | 0.115 |
| Fiscal 2007-Quarter Ended | | | |
| June 30 | $ 39.65 | $ 32.05 | $ 0.115 |
| March 31 | 37.84 | 30.20 | 0.115 |
| December 31 | 40.00 | 31.20 | 0.100 |
| September 30 | 45.05 | 36.44 | 0.100 |

The number of registered shareholders of the Company's common stock at June 30, 2008, was 17,330. The Company expects to continue its policy of paying regular cash dividends, although there is no assurance as to future dividends because they are dependent on future earnings, capital requirements, and financial condition.

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES (Continued)

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program (2) | Number of Shares Remaining to be Purchased Under the Program (2) |
|---|---|---|---|---|
| April 1, 2008 to April 30, 2008 | 1,799 | $ 47.13 | 307 | 75,630,561 |
| May 1, 2008 to May 31, 2008 | 9,061 | 43.99 | 154 | 75,630,407 |
| June 1, 2008 to June 30, 2008 | 118 | 41.80 | 118 | 75,630,289 |
| Total | 10,978 | $ 44.48 | 579 | 75,630,289 |

(1) Total shares purchased represents those shares purchased as part of the Company's publicly announced share repurchase program described below and shares received as payment of the exercise price for stock option exercises. During the three-month period ended June 30, 2008, the Company received 10,399 shares as payment of the exercise price for stock option exercises.

(2) On November 4, 2004, the Company's Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to 100,000,000 shares of the Company's common stock during the period commencing January 1, 2005 and ending December 31, 2009.

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES (Continued)

Performance Graph

The graph below compares five-year returns of the Company's common stock with those of the S&P 500 Index, the S&P Packaged Foods and Meats Index, and the S&P Consumer Staples Index which the Company today considers a more relevant line-of-business index. The graph assumes all dividends have been reinvested and assumes an initial investment of $100 on June 30, 2003. Information in the graph is presented on a June 30 fiscal year basis.

Graph produced by Research Data Group, Inc.

Item 6. SELECTED FINANCIAL DATA

Selected Financial Data
(In millions, except ratio and per share data)

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Net sales and other operating income | $ 69,816 | $ 44,018 | $ 36,596 | $ 35,943 | $ 36,151 |
| Depreciation | 721 | 701 | 657 | 665 | 686 |
| Net earnings | 1,802 | 2,162 | 1,312 | 1,044 | 495 |
| Basic earnings per common share | 2.80 | 3.32 | 2.01 | 1.60 | 0.76 |
| Diluted earnings per common share | 2.79 | 3.30 | 2.00 | 1.59 | 0.76 |
| Cash dividends | 316 | 281 | 242 | 209 | 174 |
| Per common share | 0.49 | 0.43 | 0.37 | 0.32 | 0.27 |
| Working capital | $ 10,834 | $ 7,254 | $ 5,661 | $ 4,344 | $ 3,589 |
| Current ratio | 1.7 | 1.9 | 1.9 | 1.8 | 1.5 |
| Inventories | 10,160 | 6,060 | 4,677 | 3,907 | 4,592 |
| Net property, plant, and equipment | 7,125 | 6,010 | 5,293 | 5,184 | 5,255 |
| Gross additions to property, plant, and equipment | 1,789 | 1,404 | 841 | 647 | 621 |
| Total assets | 37,056 | 25,118 | 21,269 | 18,598 | 19,369 |
| Long-term debt | 7,690 | 4,752 | 4,050 | 3,530 | 3,740 |
| Shareholders' equity | 13,490 | 11,253 | 9,807 | 8,435 | 7,698 |
| Per common share | 20.95 | 17.50 | 14.95 | 12.96 | 11.83 |
| Weighted average shares outstanding-basic | 644 | 651 | 654 | 654 | 648 |
| Weighted average shares outstanding-diluted | 646 | 656 | 656 | 656 | 650 |

Significant items affecting the comparability of the financial data shown above are as follows.

- Net earnings for 2007 include a gain of $440 million ($286 million after tax, equal to $0.44 per share) related to the exchange of the Company's interests in certain Asian joint ventures for shares of Wilmar International Limited, realized securities gains of $357 million ($225 million after tax, equal to $0.34 per share) related to the Company's sale of equity securities of Tyson Foods Inc. and Overseas Shipholding Group Inc. and a $209 million gain ($132 million after tax, equal to $0.20 per share) related to the sale of businesses.

- Net earnings for 2005 include a gain of $159 million ($119 million after tax, equal to $0.18 per share) related to the sale of the Company's interest in Tate & Lyle PLC.

- Net earnings for 2004 include a $400 million charge ($252 million after tax, equal to $0.39 per share) related to the settlement of fructose litigation.

## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Company Overview

The Company is principally engaged in procuring, transporting, storing, processing, and merchandising agricultural commodities and products. Beginning in fiscal 2008, the Company has reclassified certain operations within its reportable segments to reflect how the Company now manages its businesses following a realignment of the organizational structure of the Company and to reflect the activities of the Company as viewed by the Company's chief operating decision maker. Prior period segment information has been reclassified to conform to the new presentation. The Company's operations are classified into three reportable business segments: Oilseeds Processing, Corn Processing and Agricultural Services. Each of these segments is organized based upon the nature of products and services offered. The Company's remaining operations are aggregated and classified as Other.

The Oilseeds Processing segment includes activities related to the origination and crushing of oilseeds such as soybeans, cottonseed, sunflower seeds, canola, peanuts, and flaxseed into vegetable oils and protein meals principally for the food and feed industries. In addition, oilseeds and oilseed products may be processed internally or resold into the marketplace as raw materials for other processing. Crude vegetable oil is sold "as is" or is further processed by refining, bleaching, and deodorizing into salad oils. Salad oils can be further processed by hydrogenating and/or interesterifying into margarine, shortening, and other food products. Partially refined oil is sold for use in chemicals, paints, and other industrial products. Refined oil can be further processed for use in the production of biodiesel. Oilseed protein meals are primary ingredients used in the manufacture of commercial livestock and poultry feeds. Oilseeds Processing includes activities related to the production of natural health and nutrition products and the production of other specialty food and feed ingredients. This segment also includes activities related to the Company's interests in unconsolidated affiliates in Asia, principally Wilmar International Limited.

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

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

Other includes the Company's remaining processing operations, consisting of activities related to processing agricultural commodities into food ingredient products such as wheat into wheat flour, cocoa into chocolate and cocoa products, and barley into malt. Other also includes financial activities related to banking, captive insurance, private equity fund investments, and futures commission merchant activities.

### Operating Performance Indicators

The Company's Oilseeds Processing, Agricultural Services, and wheat 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 net sales and cost of products sold and minimal impact on the gross profit of underlying transactions. As a result, changes in gross profit of these businesses do not necessarily correspond to the changes in net sales amounts.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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

The Company conducts its business in many countries. For the majority of the Company's subsidiaries located outside the United States, the local currency is the functional currency. Revenues and expenses denominated in foreign currencies are translated into U.S. dollars at the weighted average exchange rates for the applicable periods. Fluctuations in the exchange rates of foreign currencies, primarily the Euro, British pound, and Canadian dollar, as compared to the U.S. dollar will result in corresponding fluctuations in the U.S. dollar value of revenues and expenses reported by the Company. The impact of these currency exchange rate changes, where significant, is discussed below.

The Company measures the performance of its business segments using key operating statistics such as segment operating profit, return on fixed capital investment, return on equity, return on net assets, and cost per metric ton produced. The Company's operating results can vary significantly due to changes in unpredictable factors such as fluctuations in energy prices, weather conditions, crop plantings, government programs and policies, changes in global demand resulting from population growth and changes in standards of living, and global production of similar and competitive crops. Due to these unpredictable factors, the Company does not provide forward-looking information in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

2008 Compared to 2007

As an agricultural-based commodity business, the Company is subject to a variety of market factors which affect the Company's operating results. Strong demand for agricultural commodities and processed products has challenged the global supply chain and provided exceptional margin opportunities in 2008. Strong global demand for protein meal and vegetable oil and strong fertilizer demand in South America positively impacted Oilseeds Processing results. The market price of corn rose due to increased demand, resulting in higher raw material costs for Corn Processing which were only partially passed on in the form of increased selling prices for sweeteners and starches. Average ethanol selling prices decreased due to additional supply entering the market. Large North American crops combined with global wheat shortages created favorable conditions in agricultural merchandising and handling operations. Increased commodity costs resulted in larger LIFO inventory valuation reserves.

Earnings before income taxes decreased due principally to gains totaling $1.0 billion before income tax on business disposals recorded in 2007 including $440 million related to the exchange of the Company's interest in certain Asian joint ventures for shares of Wilmar International Limited (the Wilmar gain), a $357 million realized securities gain from sales of the Company's equity securities of Tyson Foods, Inc. and Overseas Shipholding Group, Inc., a gain of $153 million from the sale of the Company's interest in Agricore United, and a $53 million gain from the sale of the Company's Arkady food ingredient business.

Earnings before income taxes for 2008 include a charge of $569 million from the effect of changing commodity prices on LIFO inventory valuations, compared to a charge of $207 million in 2007. Earnings before income taxes for 2008 also include a $32 million charge related to abandonment and write-down of long-lived assets, a $38 million gain on sales of securities, and a $21 million gain on the disposal of long-lived assets. Earnings before income taxes for 2007 include charges of $46 million related to the repurchase of $400 million of the Company's outstanding debentures and $21 million related to abandonment and write-down of long-lived assets.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Analysis of Statements of Earnings

Net sales and other operating income increased 59% to $69.8 billion. Increased selling prices of agricultural commodities and oilseed processing products and, to a lesser extent, corn processing products and wheat flour accounted for 85% of the increase and higher sales volumes, principally of agricultural commodities, ethanol, and biodiesel, also contributed to the increase in net sales. In addition, net sales and other operating income increased $1.83 billion, or 4%, due to currency rate fluctuations.

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

| | 2008 | 2007 | Change |
|---|---|---|---|
| | (In millions) | | |
| Oilseeds Processing | | | |
| Crushing & Origination | $ 14,477 | $ 8,036 | $ 6,441 |
| Refining, Packaging, Biodiesel & Other | 8,588 | 5,758 | 2,830 |
| Asia | 214 | 149 | 65 |
| Total Oilseeds Processing | 23,279 | 13,943 | 9,336 |
| | | | |
| Corn Processing | | | |
| Sweeteners & Starches | 3,546 | 2,761 | 785 |
| Bioproducts | 3,591 | 3,064 | 527 |
| Total Corn Processing | 7,137 | 5,825 | 1,312 |
| | | | |
| Agricultural Services | | | |
| Merchandising & Handling | 33,749 | 20,222 | 13,527 |
| Transportation | 219 | 197 | 22 |
| Total Agricultural Services | 33,968 | 20,419 | 13,549 |
| | | | |
| Other | | | |
| Wheat, Cocoa, & Malt | 5,335 | 3,738 | 1,597 |
| Financial | 97 | 93 | 4 |
| Total Other | 5,432 | 3,831 | 1,601 |
| Total | $ 69,816 | $ 44,018 | $ 25,798 |

Oilseeds Processing sales increased 67% to $23.3 billion due principally to increased average selling prices resulting primarily from increases in underlying commodity costs and from continuing strong demand for vegetable oil, biodiesel and protein meal. Sales volumes of vegetable oil, protein meal and biodiesel also increased. Corn Processing sales increased 23% to $7.1 billion. Good demand for sweeteners and starches resulted in higher average selling prices. Bioproducts sales increased primarily as a result of increased ethanol sales volumes partially offset by lower average ethanol selling prices. Increased ethanol sales volumes reflect higher gasoline prices, improved gasoline blending economics and additional demand, principally from newly-opened markets in the southeastern United States. Agricultural Services sales increased 66% to $34.0 billion primarily due to increased underlying commodity costs, and to a lesser extent, increased sales volumes. Sales in the Other segment increased 42% to $5.4 billion primarily due to higher average selling prices of wheat flour and, to a lesser extent, higher sales volumes and higher average selling prices of cocoa products.

Cost of products sold increased 62% to $66.0 billion primarily due to higher agricultural commodity costs, and, to a lesser extent, higher sales volumes. Manufacturing expenses increased $549 million primarily due to higher energy and transportation fuel costs, increased employee-related costs, higher storage and handling costs, increased production capacity, and the impact of foreign currency translation. In addition, cost of products sold increased $1.75 billion, or 4%, due to currency rate fluctuations.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Selling, general and administrative expenses increased $224 million to $1.4 billion primarily due to higher employee-related costs and higher outside service costs, including $44 million related to an organizational realignment and reorganization of the company's European headquarters, and increased $37 million due to the impact of currency rate fluctuations.

Other income – net decreased $911 million primarily due to gains totaling $1.0 billion on business disposals recorded in 2007 including $440 million related to the Wilmar gain, $357 million realized securities gain from sales of the Company's equity securities of Tyson Foods, Inc. and Overseas Shipholding Group, Inc., a gain of $153 million from the sale of the Company's interest in Agricore United, and a $53 million gain from the sale of the Company's Arkady food ingredient business. Equity in earnings of unconsolidated affiliates increased $121 million in 2008, primarily related to improved operating results of the Company's investments in U.S. grain export, Asian oilseeds and peanut processing ventures. Other income - net also reflects $38 million in gains on sales of securities in 2008, $21 million in gains on disposals of long-lived assets in 2008, an increase from 2007 to 2008 of $11 million in charges related to abandonment and write-down of long-lived assets, and a charge of $46 million related to the repurchase of $400 million of the Company's outstanding debentures in 2007.

Operating profit by segment is as follows:

| | 2008 | 2007 | Change |
|---|---|---|---|
| | | (In millions) | |
| Oilseeds Processing | | | |
| Crushing & Origination | $ 727 | $ 414 | $ 313 |
| Refining, Packaging, Biodiesel & Other | 181 | 202 | (21) |
| Asia | 132 | 523 | (391) |
| Total Oilseeds Processing | 1,040 | 1,139 | (99) |
| | | | |
| Corn Processing | | | |
| Sweeteners & Starches | 529 | 509 | 20 |
| Bioproducts | 432 | 596 | (164) |
| Total Corn Processing | 961 | 1,105 | (144) |
| | | | |
| Agricultural Services | | | |
| Merchandising & Handling | 873 | 382 | 491 |
| Transportation | 144 | 156 | (12) |
| Total Agricultural Services | 1,017 | 538 | 479 |
| | | | |
| Other | | | |
| Wheat, Cocoa, & Malt | 217 | 209 | 8 |
| Financial | 206 | 170 | 36 |
| Total Other | 423 | 379 | 44 |
| Total Segment Operating Profit | 3,441 | 3,161 | 280 |
| Corporate | (817) | (7) | (810) |
| Earnings Before Income Taxes | $ 2,624 | $ 3,154 | $ (530) |

Oilseeds Processing operating profit decreased 9% to $1.0 billion. Excluding the $440 million Wilmar gain reflected in Asia results in 2007, Oilseeds Processing operating profit increased 49%, primarily due to strong global demand for protein meal, vegetable oil, and fertilizer. Crushing and Origination operating profits increased 76% to $727 million due principally to improved crushing margins in North and South America and improved fertilizer results in South America.  Refining, Packaging, Biodiesel and Other operating profits decreased 10% to $181 million due principally to decreased biodiesel margins in Europe and asset impairment charges of $28 million in 2008, partially offset by improved global refining margins.  2007 operating profit for Refining, Packaging, Biodiesel and Other includes a $14 million gain on a business disposal.  Excluding the Wilmar gain, Asia operating profits increased 59% to $132 million, principally reflecting the Company's share of improved operating profits of Wilmar International Limited.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Corn Processing operating profits decreased 13% to $961 million, primarily due to higher net corn costs. Sweeteners and Starches operating profits of $529 were relatively unchanged as higher average selling prices were offset by higher net corn costs and increased manufacturing costs. Manufacturing cost increases reflect higher energy costs, higher repair and maintenance expenses, and higher costs for chemicals used in the manufacturing process. Bioproducts operating profits decreased 28% to $432 million primarily due to higher net corn costs, higher manufacturing expenses, and decreased average ethanol selling prices, partially offset by higher sales volumes for ethanol and, to a lesser extent, higher average lysine selling prices and higher lysine sales volumes.

Agricultural Services operating profits increased 89% to $1.0 billion. 2007 operating profits in Merchandising and Handling include a $153 million gain on the sale of the Company's interest in Agricore United. Excluding this gain, Merchandising and Handling operating profits increased 281% to $873 million. This increase was primarily due to enhanced merchandising and handling margins caused by volatile global grain and freight markets, favorable risk management results, and to a lesser extent, increased sales volumes. Transportation operating profits decreased 8% to $144 million primarily due to increased fuel costs.

Other operating profits increased 12% to $423 million. Wheat, Cocoa and Malt operating profits increased 4% to $217 million. 2007 operating profits for Wheat included a gain of $39 million from the sale of the Company's Arkady food ingredient business. Excluding the Arkady gain, Wheat, Cocoa and Malt operating profits improved 28%, primarily due to improved wheat and malt margins reflecting increased demand, partially offset by decreased cocoa processing margins reflecting higher raw material and operating costs and competitive pressures experienced in the North American chocolate market. Financial operating profits improved 21% to $206 million primarily due to improvements in the Company's futures commission merchant business.

Corporate expense increased $810 million to $817 million, primarily due to a $362 million increase in the charge related to the effects of changing commodity prices on LIFO inventory valuations, a $371 million decrease in realized securities gains primarily reflecting the $357 million gain recorded in 2007 from sales of the Company's equity securities of Tyson Foods, Inc. and Overseas Shipholding Group, Inc., a $51 million increase in corporate expenses due principally to reorganization and realignment costs, partially offset by a charge of $46 million recorded in 2007 related to the repurchase of $400 million of the Company's outstanding debentures.

Income taxes decreased primarily due to lower pretax earnings. The Company's effective tax rate during 2008 of 31.3% was comparable to the 2007 rate of 31.5%.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

2007 Compared to 2006

As an agricultural-based commodity business, the Company is subject to a variety of market factors which affect the Company's operating results. Strong biodiesel demand in Europe continued to create increased vegetable oil demand and positively impacted rapeseed crushing margins in Europe. Abundant oilseed supplies, improved vegetable oil values, and strong protein meal demand have positively impacted oilseed crushing margins in North America. Increased ethanol contracted selling prices, continuing strong ethanol demand, and solid demand for sweetener and starch products improved corn processing results. These increases in corn processing results were partially offset by higher net corn costs. Global grain merchandising opportunities resulting from regional production imbalances also improved operating results. North American river transportation operations were favorably impacted by strong demand for river transportation services which increased barge freight rates. Increasing commodity price levels resulted in larger LIFO inventory valuation reserves.

Net earnings increased due principally to improved operating results in all of the Company's operating segments. Earnings before income taxes for 2007 include a gain of $440 million related to the exchange of the Company's interests in certain Asian joint ventures for shares of Wilmar International Limited (the Wilmar Gain), a $357 million realized securities gain from sales of the Company's equity securities of Tyson Foods, Inc. and Overseas Shipholding Group, Inc., a gain of $153 million from the sale of the Company's interest in Agricore United and a $53 million gain from the sale of the Company's Arkady food ingredient business. Earnings before income taxes for 2007 also include charges of $207 million from the effect of changing commodity prices on LIFO inventory valuations, $46 million related to the repurchase of $400 million of the Company's outstanding debentures, and $21 million related to abandonment and write-down of long-lived assets. Net earnings for 2006 include a $36 million reduction in income tax expense related to the recognition of federal and state income tax credits and adjustments resulting from the reconciliation of filed tax returns to the previously estimated tax provision. Earnings before income taxes for 2006 include charges of $15 million resulting from the Company's adoption of Financial Accounting Standards Board Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143 (FIN 47), $71 million related to abandonment and write-down of long-lived assets, $9 million representing the Company's share of a charge for abandonment and write-down of long-lived assets reported by an unconsolidated affiliate of the Company, and $22 million associated with the closure of a citric acid plant and exiting the European animal feed business. Earnings before income taxes for 2006 also include credits of $12 million from the effect of changing commodity prices on LIFO inventory valuations, $17 million from the sale of long-lived assets, $46 million related to Brazilian transactional tax credits, and $40 million related to realized securities gains.

Analysis of Statements of Earnings

Net sales and other operating income increased 20% to $44.0 billion due primarily to increased selling prices of agricultural commodities, oilseed and corn processing products and, to a lesser extent, increased sales volumes of agricultural commodities and oilseed processing products. In addition, net sales and other operating income increased $916 million, or 3%, due to currency exchange rate fluctuations.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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

| | 2007 | 2006 | Change |
|---|---|---|---|
| | | (In millions) | |
| Oilseeds Processing | | | |
| Crushing & Origination | $ 8,036 | $ 7,048 | $ 988 |
| Refining, Packaging, Biodiesel & Other | 5,758 | 4,726 | 1,032 |
| Asia | 149 | 119 | 30 |
| Total Oilseeds Processing | 13,943 | 11,893 | 2,050 |
| Corn Processing | | | |
| Sweeteners & Starches | 2,761 | 2,529 | 232 |
| Bioproducts | 3,064 | 2,727 | 337 |
| Total Corn Processing | 5,825 | 5,256 | 569 |
| Agricultural Services | | | |
| Merchandising & Handling | 20,222 | 15,954 | 4,268 |
| Transportation | 197 | 201 | (4) |
| Total Agricultural Services | 20,419 | 16,155 | 4,264 |
| Other | | | |
| Wheat, Cocoa, & Malt | 3,738 | 3,217 | 521 |
| Financial | 93 | 75 | 18 |
| Total Other | 3,831 | 3,292 | 539 |
| Total | $ 44,018 | $ 36,596 | $ 7,422 |

Oilseeds Processing sales increased 17% to $13.9 billion due principally to increased average selling prices of vegetable oil and increased sales volumes of vegetable oil and biodiesel. Vegetable oil selling prices and volumes improved as the markets anticipated new demand from the developing United States biodiesel industry. Biodiesel sales volumes increased due to additional production capacity. Corn Processing sales increased 11% to $5.8 billion due principally to increased sales of Bioproducts and, to a lesser extent, increased sales of Sweeteners and Starches. Bioproducts sales increased primarily due to higher average selling prices of ethanol, partially offset by lower sales volumes. Ethanol average selling prices increased primarily due to higher gasoline prices. Ethanol sales volumes decreased as 2006 sales volumes exceeded production due to the release of inventories built up in anticipation of refiners replacing MTBE with ethanol. Sweeteners and Starches sales increased primarily due to higher average selling prices resulting from good demand for sweetener and starch products. Agricultural Services sales increased 26% to $20.4 billion due principally to increased agricultural commodity prices and increased sales volumes. The increase in commodity prices was primarily due to higher average market prices of corn in North America which had increased 60% from the prior year. Increased sales volumes of global grain merchandising activities also contributed to the increase in Agricultural Services sales. Other sales increased 16% to $3.8 billion primarily due to higher average selling prices of wheat flour products and, to a lesser extent, increased sales volumes and higher average selling prices of cocoa products.

Cost of products sold increased 21% to $40.8 billion primarily due to higher average costs of agricultural commodities and increased sales volumes. Manufacturing costs for 2007 and 2006 include a $21 million and $62 million charge, respectively, for abandonment and write-down of long-lived assets. In addition, cost of products sold increased $874 million, or 3%, due to currency exchange rate fluctuations.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Selling, general, and administrative expenses of $1.2 billion were comparable to 2006 and included $25 million of currency exchange rate increases. Excluding the impact of currency exchange rate increases, selling, general and administrative expenses decreased $23 million due principally to 2006 selling, general and administrative expenses including $20 million of severance costs associated with the closure of a citric acid plant. During 2007 and 2006, the Company issued option grants and restricted stock awards to officers and key employees pursuant to the Company's Long-term Management Incentive Program. Certain officers and key employees of the Company receiving option grants and restricted stock awards were eligible for retirement. Compensation expense related to option grants and restricted stock awards issued to these retirement-eligible employees is recognized in earnings on the date of grant. Selling, general, and administrative expense for 2007 and 2006 includes compensation expense related to option grants and restricted stock awards granted to retirement-eligible employees of $30 million and $31 million, respectively.

Other income - net increased $1.0 billion primarily due to the $440 million Wilmar Gain, a $357 million gain on the sale of the Company's equity securities of Tyson Foods, Inc. and Overseas Shipholding Group, Inc., a $153 million gain on the sale of the Company's interest in Agricore United, and a $53 million gain on the sale of the Company's Arkady food ingredient business. Other income - net also includes a $46 million charge related to the repurchase of $400 million of the Company's outstanding debentures in 2007. Excluding these items, other income - net increased $73 million primarily due to a $120 million increase in equity in earnings of unconsolidated affiliates, and a $53 million increase in investment income, partially offset by a $69 million increase in interest expense and a $27 million reduction in gains on sales of long-lived assets. The increase in equity in earnings of unconsolidated affiliates was primarily due to higher valuations of the Company's private equity fund investments and improved operating results of the Company's Asian oilseed ventures. Interest expense and investment income increased primarily due to increased average borrowing and investment levels.

Operating profit by segment is as follows:

| | 2007 | 2006 (In millions) | Change |
|---|---|---|---|
| Oilseeds Processing | | | |
| Crushing & Origination | $ 414 | $ 376 | $ 38 |
| Refining, Packaging, Biodiesel & Other | 202 | 140 | 62 |
| Asia | 523 | 53 | 470 |
| Total Oilseeds Processing | 1,139 | 569 | 570 |
| | | | |
| Corn Processing | | | |
| Sweeteners & Starches | 509 | 458 | 51 |
| Bioproducts | 596 | 443 | 153 |
| Total Corn Processing | 1,105 | 901 | 204 |
| | | | |
| Agricultural Services | | | |
| Merchandising & Handling | 382 | 94 | 288 |
| Transportation | 156 | 143 | 13 |
| Total Agricultural Services | 538 | 237 | 301 |
| | | | |
| Other | | | |
| Wheat, Cocoa, & Malt | 209 | 228 | (19) |

| | | | |
|---|---|---|---|
| Financial | 170 | 126 | 44 |
| Total Other | 379 | 354 | 25 |
| Total Segment Operating Profit | 3,161 | 2,061 | 1,100 |
| Corporate | (7) | (206) | 199 |
| Earnings Before Income Taxes | $ 3,154 | $ 1,855 | $ 1,299 |

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Oilseeds Processing operating profits increased $570 million to $1.1 billion due principally to the $440 million Wilmar Gain and improved market conditions in all geographic regions. North American processing results improved due principally to abundant oilseed supplies in the United States and good demand for vegetable oil and soybean meal. Vegetable oil values improved as the markets anticipated new demand from the developing United States biodiesel industry. North American processing results were also favorably impacted by lower plant operating costs resulting from improved capacity utilization. Asian joint venture results improved due to improved palm processing operating results partially offset by decreased soy crushing operating results. European processing results improved due principally to abundant oilseed supplies in Europe and strong demand for vegetable oil. The strong demand for vegetable oil is the result of strong biodiesel demand. These increases were partially offset by decreased biodiesel operating profits resulting from higher vegetable oil prices, increased market production capacity, and lower diesel fuel prices. South American processing results declined due principally to the $27 million credit for Brazilian transactional taxes in 2006. Excluding the impact of the credit for Brazilian transactional taxes, South American processing results improved due principally to increased fertilizer margins. The improvement in fertilizer margins was primarily due to higher average sales prices due to improved fertilizer demand combined with stable raw material costs. Operating profits for 2007 include a $6 million charge for abandonment and write-down of long-lived assets. Operating profits for 2006 include a $14 million charge for abandonment and write-down of long-lived assets and a $6 million charge related to the adoption of FIN 47.

Corn Processing operating profits increased $204 million to $1.1 billion due principally to higher average selling prices and lower energy costs, partially offset by lower ethanol sales volumes and higher net corn costs. Net corn costs increased approximately 60% during 2007 due to significant anticipated demand increases for corn resulting primarily from increasing corn-derived ethanol industry capacity. Agricultural commodity market concerns regarding the expected decline in the ending 2006 corn crop carryover also contributed to the increase in corn costs. Sweeteners and Starches operating profits increased $51 million primarily due to higher average sales prices and lower energy costs. Sales prices increased due principally to good demand for sweetener and starch products. These increases were partially offset by increased net corn costs. Sweeteners and Starches operating profits for 2006 include a $5 million charge related to the adoption of FIN 47. Bioproducts operating profits increased $153 million primarily due to higher ethanol average selling prices and lower energy costs, partially offset by increased net corn costs and lower ethanol sales volumes. Ethanol average sales prices increased due principally to strong demand from gasoline refiners and higher gasoline prices. Ethanol sales volumes decreased as 2006 sales volumes exceeded production due to the release of inventories built up in anticipation of refiners replacing MTBE with ethanol. Bioproducts operating results for 2007 include a $1 million charge for abandonment and write-down of long-lived assets. Bioproducts operating results for 2006 include a $6 million charge for abandonment and write-down of long-lived assets, a $2 million charge related to the adoption of FIN 47, and $6 million of costs related to the closure of a citric acid plant.

Agricultural Services operating profits increased $301 million to $538 million due principally to a $153 million gain from the sale of the Company's interest in Agricore United, a Canadian business which specialized in crop input, crop protection services, and grain marketing and merchandising. Excluding the Agricore United gain, Agricultural Services operating profits increased $148 million to $385 million due principally to improved global grain merchandising operating results and, to a lesser extent, improved transportation and North American origination operating results. Global grain merchandising results improved as regional production imbalances allowed the Company to capitalize on merchandising opportunities. North American river transportation operating results increased primarily due to increased barge freight rates created by strong demand for barge capacity. North American origination operating results improved due to good export demand for agricultural commodities and higher ocean freight rates. Agricultural Services operating profits for 2007 include a $12 million trade disruption insurance recovery related to Hurricane Katrina.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Other operating profits increased $25 million to $379 million. Wheat, Cocoa, and Malt operating profits decreased $19 million. Wheat operating profits include a $39 million gain on the sale of the Company's Arkady food ingredient business in 2007 and a $17 million gain from the sale of long-lived assets in 2006. Excluding the effect of these one-time gains, Wheat, Cocoa, and Malt operating profits declined $41 million primarily due to cocoa operating results declining from prior year levels and to a lesser extent, weaker equity earnings from our investment in Gruma S.A. partially offset by improved operating results of the Company's wheat flour processing operations. Cocoa processing operating results declined primarily due to increased industry production capacity which caused downward pressure on cocoa processing margins. Financial operating profits increased $44 million due principally to increased valuations of the Company's private equity fund investments and higher operating results of the Company's futures commission merchant business, partially offset by lower operating results of the Company's captive insurance operations. The results of the Company's captive insurance operations for 2007 include a $12 million charge related to a Hurricane Katrina trade disruption insurance settlement.

Corporate expense decreased $199 million to $7 million due principally to a $345 million increase in realized securities gains principally resulting from sales of the Company's equity securities of Tyson Foods, Inc. and Overseas Shipholding Group, Inc. and a $103 million reduction in unallocated interest expense due principally to higher levels of invested funds and higher interest rates. These decreases were partially offset by a $207 million charge, compared to a $12 million credit in the prior year, related to the effect of changing commodity prices on LIFO inventory valuations and a $46 million charge related to the repurchase of $400 million of the Company's outstanding debentures.

Income taxes increased due principally to higher pretax earnings and the absence of a $36 million income tax credit in 2006 related to the recognition of federal and state income tax credits and adjustments resulting from the reconciliation of filed tax returns to the previously estimated tax provision. The Company's effective tax rate during 2007 was 31.5% and, after excluding the effect of the 2006 $36 million tax credit, was 31.2% for the prior year. The increase in the Company's effective tax rate was primarily due to changes in the geographic mix of pretax earnings.

Liquidity and Capital Resources

A Company objective is to have sufficient liquidity, balance sheet strength, and financial flexibility to fund the operating and capital requirements of a capital intensive agricultural-based commodity business.

At June 30, 2008, the Company had $1.3 billion of cash, cash equivalents, and short-term marketable securities and a current ratio, defined as current assets divided by current liabilities, of 1.7 to 1. Included in working capital is $7.8 billion of readily marketable commodity inventories. Cash used in operating activities totaled $3.2 billion for the year compared to $303 million cash generated from operations last year. This change was primarily due to an increase in working capital requirements principally related to increased market prices and, to a lesser extent, increased quantities of agricultural commodity inventories, principally readily marketable commodity inventories, and increased receivables. Cash used in investing activities increased $1.5 billion for the year to $1.9 billion primarily due to increased capital expenditures and decreased proceeds from sales of businesses including the sale of the Company's equity interests in Tyson Foods, Inc., Overseas Shipholding Group, Inc. and Agricore United in 2007. Cash generated by financing activities was $5.2 billion compared to cash used in financing activities of $398 million last year. Net long-term borrowings increased primarily as a result of the issuance in 2008 of approximately $3.1 billion of additional long-term debt, including $500 million of debentures issued in December 2007, $700 million of notes issued in March 2008, and $1.75 billion of debentures in June 2008, compared to $1.15 billion of convertible senior notes issued in February 2007, partially offset by $480 million of reduced debt payments principally related to the

Company's retirement of $400 million of debentures in 2007.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Capital resources were strengthened in 2008 as shown by the increase in the Company's net worth from $11.3 billion to $13.5 billion. The Company's ratio of long-term debt to total capital (the sum of the Company's long-term debt and shareholders' equity) was 36% at June 30, 2008, and 30% at June 30, 2007. This ratio is a measure of the Company's long-term liquidity and is an indicator of financial flexibility. The Company currently has $7.4 billion of commercial paper and commercial bank lines available to meet seasonal cash requirements of which $5.2 billion are committed and $2.2 billion are uncommitted. At June 30, 2008, the Company had $3.1 billion of short-term debt outstanding. Standard & Poor's, Moody's, and Fitch rate the Company's commercial paper as A-1, P-1, and F1, respectively, and rate the Company's long-term debt as A, A2, and A, respectively. In addition to the cash flow generated from operations, the Company has access to equity and debt capital through numerous alternatives from public and private sources in domestic and international markets.

The Company has outstanding $1.15 billion principal amount of convertible senior notes. As of June 30, 2008, none of the conditions permitting conversion of the notes had been satisfied. As of June 30, 2008, the market price of the Company's common stock was not greater than the exercise price of the purchased call options or warrants related to the convertible senior notes.

In June 2008, the Company issued $1.75 billion of debentures as a component of Equity Units. The Equity Units are a combination of (a) debt and (b) forward contracts for the holder to purchase the Company's common stock. The purchase contracts obligate the holder to purchase from the Company, no later than June 1, 2011, for a price of $50 in cash, a certain number of shares, ranging from 1.0453 shares to 1.2544 shares, of the Company's common stock, based on a formula established in the contract.

Contractual Obligations and Off-Balance Sheet Arrangements

In the normal course of business, the Company enters into contracts and commitments which obligate the Company to make payments in the future. The following table sets forth the Company's significant future obligations by time period. Purchases include commodity-based contracts entered into in the normal course of business, which are further described in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," energy-related purchase contracts entered into in the normal course of business, and other purchase obligations related to the Company's normal business activities. Where applicable, information included in the Company's consolidated financial statements and notes is cross-referenced in this table.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

| Contractual Obligations | Note Reference | Total | Less than 1 Year | 1 - 3 Years | 3 – 5 Years | More than 5 Years |
|---|---|---|---|---|---|---|
| | | | | Payments Due by Period (In millions) | | |
| Purchases | | | | | | |
| Inventories | | $ 24,230 | $ 22,813 | $ 1,200 | $ 174 | $ 43 |
| Energy | | 952 | 502 | 302 | 80 | 68 |
| Other | | 148 | 58 | 60 | 18 | 12 |
| Total purchases | | 25,330 | 23,373 | 1,562 | 272 | 123 |
| Short-term debt | Note 7 | 3,123 | 3,123 | – | – | – |
| Long-term debt | Note 7 | 7,993 | 232 | 358 | 380 | 7,023 |
| Estimated interest payments | | 9,639 | 511 | 808 | 758 | 7,562 |
| Operating leases | Note 12 | 1,364 | 403 | 402 | 239 | 320 |
| Estimated pension and other postretirement plan contributions | Note 13 | 1,217 | 90 | 204 | 229 | 694 |
| Total | | $ 48,666 | $ 27,732 | $ 3,334 | $ 1,878 | $ 15,722 |

At June 30, 2008, the Company estimates it will spend approximately $2.5 billion over the next five years to complete currently approved capital projects and acquisitions which is not included in the table above. The Company is a limited partner in various private equity funds which invest primarily in emerging markets. At June 30, 2008, the Company's carrying value of these limited partnership investments was $129 million. The Company has future capital commitments related to these partnerships of $137 million and expects the majority of these additional capital commitments, if called for, to be funded by cash flows generated by the partnerships. The Company also has outstanding letters of credit and surety bonds of $500 million at June 30, 2008.

In addition, the Company has entered into agreements, primarily debt guarantee agreements related to equity-method investees, which could obligate the Company to make future payments. The Company's liability under these agreements arises only if the primary entity fails to perform its contractual obligation. The Company has collateral for a portion of these contingent obligations. At June 30, 2008, these contingent obligations totaled approximately $135 million. Amounts outstanding for the primary entity under these contingent obligations were $62 million at June 30, 2008.

Critical Accounting Policies

The process of preparing financial statements requires management to make estimates and judgments that affect the carrying values of the Company's assets and liabilities as well as the recognition of revenues and expenses. These estimates and judgments are based on the Company's historical experience and management's knowledge and understanding of current facts and circumstances. Certain of the Company's accounting policies are considered critical, as these policies are important to the depiction of the Company's financial statements and require significant or complex judgment by management. Management has discussed with the Company's Audit Committee the development, selection, disclosure, and application of these critical accounting policies. Following are the accounting policies management considers critical to the Company’s financial statements.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Inventories and Derivatives

Certain of the Company's merchandisable agricultural commodity inventories, forward fixed-price purchase and sale contracts, and exchange-traded futures and exchange-traded and over-the-counter options contracts are valued at estimated market values. These merchandisable agricultural commodities are freely traded, have quoted market prices, and may be sold without significant additional processing. Management estimates market value based on exchange-quoted prices, adjusted for differences in local markets. Changes in the market values of these inventories and contracts are recognized in the statement of earnings as a component of cost of products sold. If management used different methods or factors to estimate market value, amounts reported as inventories and cost of products sold could differ materially. Additionally, if market conditions change subsequent to year-end, amounts reported in future periods as inventories and cost of products sold could differ materially.

The Company, from time to time, uses derivative contracts designated as cash flow hedges to fix the purchase price of anticipated volumes of commodities to be purchased and processed in a future month, to fix the purchase price of the Company's anticipated natural gas requirements for certain production facilities, and to fix the sales price of anticipated volumes of ethanol. The change in the market value of such derivative contracts has historically been, and is expected to continue to be, highly effective at offsetting changes in price movements of the hedged item. Gains and losses arising from open and closed hedging transactions are deferred in other comprehensive income, net of applicable income taxes, and recognized as a component of cost of products sold in the statement of earnings when the hedged item is recognized. If it is determined that the derivative instruments used are no longer effective at offsetting changes in the price of the hedged item, then the changes in the market value of these exchange-traded futures and exchange-traded and over-the-counter option contracts would be recorded in the statement of earnings as a component of cost of products sold.

Employee Benefit Plans

The Company provides substantially all domestic employees and employees at certain international subsidiaries with pension benefits. The Company also provides substantially all domestic salaried employees with postretirement health care and life insurance benefits. In order to measure the expense and funded status of these employee benefit plans, management makes several estimates and assumptions, including interest rates used to discount certain liabilities, rates of return on assets set aside to fund these plans, rates of compensation increases, employee turnover rates, anticipated mortality rates, and anticipated future health care costs. These estimates and assumptions are based on the Company's historical experience combined with management's knowledge and understanding of current facts and circumstances. Management also uses third-party actuaries to assist in measuring the expense and funded status of these employee benefit plans. If management used different estimates and assumptions regarding these plans, the funded status of the plans could vary significantly, and the Company could recognize different amounts of expense over future periods.

Income Taxes

The Company frequently faces challenges from domestic and foreign tax authorities regarding the amount of taxes due. These challenges include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the exposure associated with various tax filing positions, the Company records reserves for estimates of potential additional tax owed by the Company. Deferred tax assets represent items to be used as tax deductions or credits in future tax returns, and the related tax benefit has already been recognized in the Company's income statement. Realization of certain deferred tax assets reflects the Company's tax planning strategies. Valuation allowances related to these deferred tax assets have been established to the extent the realization of the tax benefit is not probable. Based on management's evaluation of the Company's tax position, it is believed the amounts related to these tax exposures are appropriately accrued. To the extent the Company were to favorably resolve matters for which accruals have been established or be required to pay amounts in excess of the aforementioned reserves, the Company's effective tax rate in a given financial statement period may be impacted.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Undistributed earnings of the Company's foreign subsidiaries and affiliated corporate joint ventures accounted for on the equity method are considered to be permanently reinvested, and accordingly, no provision for U.S. income taxes has been provided thereon. If the Company were to receive distributions from any of these foreign subsidiaries or affiliates or determine the undistributed earnings of these foreign subsidiaries or affiliates to not be permanently reinvested, the Company could be subject to U.S. tax liabilities which have not been provided for in the consolidated financial statements.

Asset Abandonments and Write-Downs

The Company is principally engaged in the business of procuring, transporting, storing, processing, and merchandising agricultural commodities and products. This business is global in nature and is highly capital-intensive. Both the availability of the Company's raw materials and the demand for the Company's finished products are driven by unpredictable factors such as weather, plantings, government programs and policies, changes in global demand resulting from population growth and changes in standards of living, and global production of similar and competitive crops. These aforementioned unpredictable factors, therefore, may cause a shift in the supply/demand dynamics for the Company's raw materials and finished products. Any such shift will cause management to evaluate the efficiency and profitability of the Company's asset base in terms of geographic location, size, and age of its factories. The Company, from time to time, will also invest in equipment, technology, and companies related to new, value-added products produced from agricultural commodities and products. These new products are not always successful from either a commercial production or marketing perspective. Management evaluates the Company's property, plant, and equipment for impairment whenever indicators of impairment exist. The Company evaluates goodwill and other intangible assets with indefinite lives for impairment annually. Assets are written down after consideration of the ability to utilize the assets for their intended purpose or to employ the assets in alternative uses or sell the assets to recover the carrying value. If management used different estimates and assumptions in its evaluation of these assets, then the Company could recognize different amounts of expense over future periods.

Valuation of Marketable Securities and Investments in Affiliates

The Company classifies the majority of its marketable securities as available-for-sale and carries these securities at fair value. Investments in affiliates are carried at cost plus equity in undistributed earnings and are adjusted, where appropriate, for amortizable basis differences between the investment balance and the underlying net assets of the investee. For publicly traded securities, the fair value of the Company's investments is readily available based on quoted market prices. For non-publicly traded securities, management's assessment of fair value is based on valuation methodologies including discounted cash flows and estimates of sales proceeds. In the event of a decline in fair value of an investment below carrying value, management may be required to determine if the decline in fair value is other than temporary. In evaluating the nature of a decline in the fair value of an investment, management considers the market conditions, trends of earnings, discounted cash flows, trading volumes, and other key measures of the investment as well as the Company's ability and intent to hold the investment. When such a decline in value is deemed to be other than temporary, an impairment loss is recognized in the current period operating results to the extent of the decline. See Notes 3 and 5 to the Company's consolidated financial statements for information regarding the Company's marketable securities and investments in affiliates. If management used different estimates and assumptions in its evaluation of these marketable securities, then the Company could recognize different amounts of expense over future periods.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk inherent in the Company's market risk sensitive instruments and positions is the potential loss arising from adverse changes in: commodity market prices as they relate to the Company's net commodity position, foreign currency exchange rates, and interest rates as described below.

Commodities

The availability and price of agricultural commodities are subject to wide fluctuations due to unpredictable factors such as weather, plantings, government programs and policies, changes in global demand resulting from population growth and changes in standards of living, and global production of similar and competitive crops.

To reduce price risk caused by market fluctuations, the Company generally follows a policy of using exchange-traded futures and exchange-traded and over-the-counter options contracts to minimize its net position of merchandisable agricultural commodity inventories and forward cash purchase and sales contracts. The Company will also use exchange-traded futures and exchange-traded and over-the-counter options contracts as components of merchandising strategies designed to enhance margins. The results of these strategies can be significantly impacted by factors such as the volatility of the relationship between the value of exchange-traded commodities futures contracts and the cash prices of the underlying commodities, counterparty contracts defaults, and volatility of freight markets. In addition, the Company from time-to-time enters into derivative contracts which are designated as hedges of specific volumes of commodities that will be purchased and processed, or sold, in a future month. The changes in the market value of such futures contracts have historically been, and are expected to continue to be, highly effective at offsetting changes in price movements of the hedged item. Gains and losses arising from open and closed hedging transactions are deferred in other comprehensive income, net of applicable taxes, and recognized as a component of cost of products sold in the statement of earnings when the hedged item is recognized.

A sensitivity analysis has been prepared to estimate the Company's exposure to market risk of its daily net commodity position. The Company's daily net commodity position consists of merchandisable agricultural commodity inventories, related purchase and sale contracts, and exchange-traded futures and exchange-traded and over-the-counter option contracts, including those contracts used to hedge portions of production requirements. The fair value of such daily net commodity position is a summation of the fair values calculated for each commodity by valuing each net position at quoted futures prices. Market risk is estimated as the potential loss in fair value resulting from a hypothetical 10% adverse change in such prices. Actual results may differ.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| Long/(Short) | Fair Value | Market Risk | Fair Value | Market Risk |
| | (In millions) | | | |
| Highest position | $ 1,260 | $ 126 | $ 703 | $ 70 |
| Lowest position | (915) | (92) | (565) | (57) |
| Average position | 251 | 25 | 180 | 18 |

The change in fair value of the average position for 2008 compared to 2007 was principally a result of increases in commodity prices and, to a lesser extent, quantities underlying the daily net commodity position.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

Currencies

In order to reduce the risk of foreign currency exchange rate fluctuations, except for amounts permanently invested as described below, the Company follows a policy of entering into currency exchange forward contracts to mitigate its foreign currency risk related to transactions denominated in a currency other than the functional currencies applicable to each of its various entities. The instruments used are forward contracts, swaps with banks, and exchange-traded futures contracts. The changes in market value of such contracts have a high correlation to the price changes in the currency of the related transactions. The potential loss in fair value for such net currency position resulting from a hypothetical 10% adverse change in foreign currency exchange rates is not material.

The amount the Company considers permanently invested in foreign subsidiaries and affiliates and translated into dollars using the year-end exchange rates is $7.0 billion at June 30, 2008, and $5.4 billion at June 30, 2007. This increase is due to an increase in retained earnings of the foreign subsidiaries and affiliates and appreciation of foreign currencies versus the U.S. dollar. The potential loss in fair value resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates is $695 million and $543 million for 2008 and 2007, respectively. Actual results may differ.

Interest

The fair value of the Company's long-term debt is estimated using quoted market prices, where available, and discounted future cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. Such fair value exceeded the long-term debt carrying value. Market risk is estimated as the potential increase in fair value resulting from a hypothetical .5% decrease in interest rates. Actual results may differ.

| | 2008 | 2007 |
|---|---|---|
| | (In millions) | |
| Fair value of long-term debt | $ 7,789 | $ 4,862 |
| Excess of fair value over carrying value | 99 | 110 |
| Market risk | 308 | 232 |

The increase in fair value of long-term debt in 2008 resulted principally from the Company's issuance of approximately $3.1 billion in long-term debt in 2008.

## Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Archer Daniels Midland Company

Consolidated Statements of Earnings

| | Year Ended June 30 | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | (In millions, except per share amounts) | | |
| Net sales and other operating income | $ 69,816 | $ 44,018 | $ 36,596 |
| Cost of products sold | 65,974 | 40,781 | 33,630 |
| Gross Profit | 3,842 | 3,237 | 2,966 |
| Selling, general and administrative expenses | 1,419 | 1,195 | 1,193 |
| Other income - net | (201) | (1,112) | (82) |
| Earnings Before Income Taxes | 2,624 | 3,154 | 1,855 |
| Income taxes | 822 | 992 | 543 |
| Net Earnings | $ 1,802 | $ 2,162 | $ 1,312 |
| Average number of shares outstanding – basic | 644 | 651 | 654 |
| Average number of shares outstanding – diluted | 646 | 656 | 656 |
| Basic earnings per common share | $ 2.80 | $ 3.32 | $ 2.01 |
| Diluted earnings per common share | $ 2.79 | $ 3.30 | $ 2.00 |

See notes to consolidated financial statements.

Archer Daniels Midland Company

Consolidated Balance Sheets

| | June 30 2008 | June 30 2007 |
|---|---|---|
| | (In millions) | |
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | $ 810 | $ 663 |
| Short-term marketable securities | 455 | 212 |
| Segregated cash and investments | 2,035 | 1,424 |
| Receivables | 11,483 | 6,404 |
| Inventories | 10,160 | 6,060 |
| Other assets | 512 | 359 |
| Total Current Assets | 25,455 | 15,122 |