ARCHER DANIELS MIDLAND CO
Form 10-Q
July 31, 2018

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

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from __________ to __________

Commission file number 1-44

ARCHER-DANIELS-MIDLAND COMPANY
(Exact name of registrant as specified in its charter)

Delaware	41-0129150
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)
77 West Wacker Drive, Suite 4600	
Chicago, Illinois	60601
(Address of principal executive offices)	(Zip Code)

(312) 634-8100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨.

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

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

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

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

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

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

Common Stock, no par value – 559,737,398 shares
(July 30, 2018)

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

Consolidated Statements of Earnings
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In millions, except per share amounts)			
Revenues	$17,068	$14,943	$32,594	$29,931
Cost of products sold	15,887	14,051	30,524	28,167
Gross Profit	1,181	892	2,070	1,764
Selling, general, and administrative expenses	560	525	1,073	1,041
Asset impairment, exit, and restructuring costs	24	23	40	33
Interest expense	89	86	180	167
Equity in (earnings) losses of unconsolidated affiliates	(100)	(109)	(247)	(281)
Interest income	(42)	(25)	(75)	(48)
Other (income) expense – net	(2)	9	(17)	11
Earnings Before Income Taxes	652	383	1,116	841
Income taxes	86	108	154	226
Net Earnings Including Noncontrolling Interests	566	275	962	615
Less: Net earnings attributable to noncontrolling interests	—	(1)	3	—
Net Earnings Attributable to Controlling Interests	$566	$276	$959	$615
Average number of shares outstanding – basic	564	571	564	574
Average number of shares outstanding – diluted	567	574	566	576
Basic earnings per common share	$1.00	$0.48	$1.70	$1.07
Diluted earnings per common share	$1.00	$0.48	$1.70	$1.07
Dividends per common share	$0.335	$0.320	$0.670	$0.640

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In millions)			
Net earnings including noncontrolling interests	$566	$275	$962	$615
Other comprehensive income (loss):				
Foreign currency translation adjustment	(402)	362	(191)	383
Tax effect	(19)	33	(22)	36
Net of tax amount	(421)	395	(213)	419
Pension and other postretirement benefit liabilities adjustment	13	7	15	19
Tax effect	(1)	(2)	(4)	(8)
Net of tax amount	12	5	11	11
Deferred gain (loss) on hedging activities	(64)	35	(89)	38
Tax effect	15	(2)	21	(5)
Net of tax amount	(49)	33	(68)	33
Unrealized gain (loss) on investments	(2)	1	(4)	(5)
Tax effect	—	—	—	—
Net of tax amount	(2)	1	(4)	(5)
Other comprehensive income (loss)	(460)	434	(274)	458
Comprehensive income (loss) including noncontrolling interests	106	709	688	1,073
Less: Comprehensive income (loss) attributable to noncontrolling interests	—	—	3	1
Comprehensive income (loss) attributable to controlling interests	$106	$709	$685	$1,072

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Consolidated Balance Sheets

(In millions)	June 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	$ 851	$ 804
Segregated cash and investments	4,301	4,826
Trade receivables	1,900	1,947
Inventories	7,953	9,173
Other current assets	3,642	3,175
Total Current Assets	18,647	19,925
Investments and Other Assets		
Investments in and advances to affiliates	5,355	5,088
Long-term marketable securities	33	92
Goodwill and other intangible assets	3,834	3,918
Other assets	938	802
Total Investments and Other Assets	10,160	9,900
Property, Plant, and Equipment		
Land	464	470
Buildings	5,082	5,043
Machinery and equipment	18,235	18,056
Construction in progress	1,096	1,224
	24,877	24,793
Accumulated depreciation	(14,929)	(14,655)
Net Property, Plant, and Equipment	9,948	10,138
Total Assets	$ 38,755	$ 39,963
Liabilities, Temporary Equity, and Shareholders' Equity		
Current Liabilities		
Short-term debt	$ 1,047	$ 857
Trade payables	2,609	3,894
Payables to brokerage customers	4,294	4,973
Accrued expenses and other payables	3,173	2,833
Current maturities of long-term debt	595	13
Total Current Liabilities	11,718	12,570
Long-Term Liabilities		
Long-term debt	5,981	6,623
Deferred income taxes	1,002	1,053
Other	1,289	1,342
Total Long-Term Liabilities	8,272	9,018
Temporary Equity - Redeemable noncontrolling interest	53	53

Shareholders' Equity		
Common stock	2,489	2,398
Reinvested earnings	18,132	17,552
Accumulated other comprehensive income (loss)	(1,911)	(1,637)
Noncontrolling interests	2	9
Total Shareholders' Equity	18,712	18,322
Total Liabilities, Temporary Equity, and Shareholders' Equity	$ 38,755	$ 39,963

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Consolidated Statements of Cash Flows
(Unaudited)

(In millions)	Six Months Ended June 30,	
	2018	2017
Operating Activities		
Net earnings including noncontrolling interests	$962	$615
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation and amortization	474	452
Asset impairment charges	33	19
Deferred income taxes	(92)	(82)
Equity in earnings of affiliates, net of dividends	(84)	(160)
Stock compensation expense	63	48
Deferred cash flow hedges	(90)	39
Gains on sales of assets and businesses	(12)	(51)
Other – net	(116)	120
Changes in operating assets and liabilities		
Segregated investments	729	407
Trade receivables	(30)	278
Inventories	1,156	1,129
Deferred consideration in securitized receivables	(4,107)	(4,093)
Other current assets	(519)	1,592
Trade payables	(1,265)	(757)
Payables to brokerage customers	(664)	(95)
Accrued expenses and other payables	383	(1,541)
Total Operating Activities	(3,179)	(2,080)
Investing Activities		
Purchases of property, plant, and equipment	(379)	(452)
Proceeds from sales of business and assets	26	149
Net assets of businesses acquired	—	(180)
Purchases of marketable securities	(2)	(318)
Proceeds from sales of marketable securities	—	424
Investments in and advances to affiliates	(132)	(186)
Investments in retained interest in securitized receivables	(2,184)	(1,931)
Proceeds from retained interest in securitized receivables	6,212	5,845
Other – net	7	(3)
Total Investing Activities	3,548	3,348
Financing Activities		
Long-term debt borrowings	—	17
Long-term debt payments	(6)	(269)
Net borrowings (payments) under lines of credit agreements	196	195
Share repurchases	—	(511)
Cash dividends	(379)	(364)

Other – net	13	(7)
Total Financing Activities	(176)	(939)
Increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents	193	329
Cash, cash equivalents, restricted cash, and restricted cash equivalents - beginning of period	1,858	1,561
Cash, cash equivalents, restricted cash, and restricted cash equivalents - end of period	$2,051	$1,890
Reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents to the consolidated balance sheets		
Cash and cash equivalents	$851	$433
Restricted cash and restricted cash equivalents included in segregated cash and investments	1,200	1,457
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	$2,051	$1,890
Supplemental Disclosure of Noncash Investing Activity:		
Retained interest in securitized receivables	$3,978	$3,690

See notes to consolidated financial statements.

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Archer-Daniels-Midland-Company

Consolidated Statement of Shareholders' Equity
(Unaudited)

	Common Stock Shares	Common Stock Amount	Reinvested Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Shareholders' Equity
	(In millions)					
Balance, December 31, 2017	557	$ 2,398	$ 17,552	$ (1,637)	$ 9	$ 18,322
Comprehensive income						
Net earnings			959		3	
Other comprehensive income (loss)				(274)	—	
Total comprehensive income						688
Dividends paid - $0.67 per share			(379)			(379)
Stock compensation expense	1	63				63
Other	1	28	—	—	(10)	18
Balance, June 30, 2018	559	$ 2,489	$ 18,132	$ (1,911)	$ 2	$ 18,712

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements
(Unaudited)
Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these statements do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Principles of Consolidation

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

Reclassifications

In line with the futures brokerage industry practice, the Company classified $1.2 billion of segregated cash and cash equivalents as restricted cash and cash equivalents in its statement of cash flows for the six months ended June 30, 2018. Prior period amounts have been restated to conform to the current presentation which resulted in an increase of $520 million in total cash provided by operating activities for the six months ended June 30, 2017 and an increase of $1.4 billion in the ending balance of restricted cash and restricted cash equivalents as of June 30, 2017.

The Company classified $4.0 billion of cash inflows from net consideration received for beneficial interest obtained for selling trade receivables as investing instead of operating activities for the six months ended June 30, 2018. Prior period amounts have been restated to conform to the current presentation, which resulted in a decrease of $3.9 billion in total cash provided by operating activities and a corresponding increase in cash provided by investing activities for the six months ended June 30, 2017. See Note 2 for more information about the adoption of Accounting Standards Codification (ASC) Topic 230, Statement of Cash Flows.

The Company classified income of $2 million and $5 million of other components of net benefit cost as other (income) expense - net in its consolidated statement of earnings for the quarter and six months ended June 30, 2018, respectively, as a result of the adoption of the amended guidance of ASC Topic 715, Compensation - Retirement Benefits (see Note 2 for more information). Amounts previously reported with the service cost component of net benefit cost in cost of goods sold of $5 million and $9 million and selling, general, and administrative expenses of $6 million and $11 million for the quarter and six months ended June 30, 2017, respectively, have been reclassified to other (income) expense - net for the periods then ended to conform to the current presentation.

Effective January 1, 2018, the Company changed its segment reporting to reflect changes in its operating structure: Origination (formerly Agricultural Services), Oilseeds (formerly Oilseeds Processing), Carbohydrate Solutions (formerly Corn Processing) and Nutrition (formerly Wild Flavors and Specialty Ingredients). The European origination business previously reported in Oilseeds is now managed by leaders in Origination to better coordinate continental trading activities. Carbohydrate Solutions now includes the results of ADM Milling which were previously reported in Origination. Nutrition now includes the results of Animal Nutrition and certain product lines previously reported in Carbohydrate Solutions, as well as certain product lines previously reported in Oilseeds. Throughout this quarterly report on Form 10-Q, prior period results of the product lines and businesses previously reported in the other reportable business segments have been reclassified to conform to the current period presentation.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 1. Basis of Presentation (Continued)

Segregated Cash and Investments

The Company segregates certain cash, cash equivalents, and investment balances in accordance with regulatory requirements, commodity exchange requirements, and insurance arrangements. These balances represent deposits received from customers of the Company's registered futures commission merchant and commodity brokerage services, cash margins and securities pledged to commodity exchange clearinghouses, and cash pledged as security under certain insurance arrangements. Segregated cash and investments also include restricted cash collateral for the various insurance programs of the Company's captive insurance business. To the degree these segregated balances are comprised of cash and cash equivalents, they are considered restricted cash and cash equivalents on the statement of cash flows.

Last-in, First-out (LIFO) Inventories

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

Note 2. New Accounting Standards

Effective January 1, 2018, the Company adopted the amended guidance of ASC Subtopic 825-10, Financial Instruments - Overall, which is intended to improve the recognition and measurement of financial instruments. The amended guidance requires an entity to measure equity investments, except those accounted for under the equity method of accounting or those that result in consolidation of the investee, at fair value with changes in fair value recognized in net income. The amended guidance also simplifies the impairment assessment of equity investments without readily determinable fair values by using a qualitative assessment to identify impairment. The adoption of this amended guidance did not have a significant impact on the Company's financial results.
Effective January 1, 2018, the Company adopted the new guidance of ASC Topic 606, Revenue from Contracts with Customers (Topic 606), for all contracts that had not been completed as of the adoption date (the modified retrospective approach). Topic 606 requires the Company to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance requires the Company to apply the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the Company satisfies a performance obligation. Many of the Company's forward commodity sales contracts are considered physically settled derivatives under ASC Topic 815, Derivatives and Hedging (Topic 815), and are therefore excluded from the scope of Topic 606. Comparative balance sheet and income statement information has not been restated and continues to be reported under the guidance of ASC 605, Revenue Recognition (Topic 605), that was in effect as of December 31, 2017 and in the three and six months ended June 30, 2017. The cumulative effect of initially applying the guidance as an adjustment to the opening reinvested earnings balance at January 1, 2018 was less than $1 million. For more information about the adoption of Topic 606, see Note 4.
Effective January 1, 2018, the Company adopted the amended guidance of ASC 230, Statement of Cash Flows (Topic 230), which provides guidance on the application of the predominance principle and the presentation and

classification of specific cash flow issues including a requirement to classify consideration received for beneficial interest obtained for selling trade receivables as investing instead of operating activities. The adoption of the amended guidance on the Company's accounts receivable securitization programs resulted in expanded disclosures and a reclassification of cash inflows from operating activities to investing activities (see Note 1 for reclassification amounts). The adoption of amendments related to the other cash flow items did not have a significant impact on the Company's consolidated statement of cash flows.

Effective January 1, 2018, the Company adopted the amended guidance of ASC Topic 715, Compensation - Retirement Benefits, which requires that an employer report the service cost component in the same line or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The adoption of this amended guidance requires expanded disclosures and the reclassification of the other components of net benefit cost from cost of products sold and selling, general, and administrative expenses to other (income) expense - net in the Company's consolidated statements of earnings but did not impact financial results (see Note 1 for reclassification amounts).

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 3. Pending Accounting Standards

Effective January 1, 2019, the Company will be required to adopt the new guidance of ASC Topic 842, Leases (Topic 842), which will supersede ASC Topic 840, Leases. Topic 842 requires lessees to recognize assets and liabilities for all leases. The Company expects to adopt Topic 842 using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The adoption of this new guidance will require expanded disclosures in the Company’s consolidated financial statements. The Company has established a cross-functional implementation team consisting of representatives from accounting, legal, procurement, and operations. The Company utilized surveys to centrally gather more information about its existing leases and lease processes and to gather lease contracts. To ensure completeness of the population of lease contracts, the results of the survey will be cross-referenced against other available lease information (i.e., year-end disclosures and lease expense). The Company is also working with a vendor to implement a lease accounting system which will assist in delivering the required accounting changes and disclosures. As of June 30, 2018, the Company has materially completed the abstraction of the relevant lease contract data points. The next phase of the implementation plan, which includes configuration of the lease accounting system, data upload, and testing activities, is expected to be completed in the third quarter of 2018. The impact of the new standard will be a significant increase to right of use assets and lease liabilities on the Company’s consolidated balance sheet, primarily as a result of operating leases currently not recognized on the balance sheet. The Company expects to complete its assessment of the impact of the new guidance on its financial results in the second half of 2018.

Effective January 1, 2019, the Company will be required to adopt the amended guidance of ASC Topic 220, Income Statement - Reporting Comprehensive Income (Topic 220), which allows a reclassification from accumulated other comprehensive income (AOCI) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the “Act”), eliminating the stranded tax effects resulting from the Act and improving the usefulness of information reported to financial statement users. In addition, the Company will be required to disclose (1) a description of its accounting policy for releasing income tax effects from accumulated other comprehensive income; (2) whether it elects to reclassify the stranded income tax effects from the Act; and (3) information about other income tax effects related to the application of the Act that are reclassified from AOCI to retained earnings, if any. Early adoption is permitted in any interim period for which financial statements have not been issued. The Company has not yet decided whether it will elect to reclassify the stranded tax effects resulting from the Act.

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

Note 4. Revenues

Revenue Recognition

The Company principally generates revenue from merchandising and transporting agricultural commodities and manufactured products used as ingredients in food, feed, energy, and industrial products. Revenue is measured based on the consideration specified in the contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Company follows a policy of recognizing revenue at a single point in time when it satisfies its performance obligation by transferring control over a product or service to a customer. For transportation service contracts, the Company recognizes revenue over time as the barge, ocean-going vessel, truck, rail, or container freight moves towards its destination in accordance with the transfer of control guidance of Topic 606. For physically settled derivative sales contracts that are outside the scope of Topic 606, the Company recognizes revenue when control of the inventory is transferred within the meaning of Topic 606 as required by ASC 610-20, Gains and Losses from the Derecognition of Nonfinancial Assets (Topic 610-20).

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 4. Revenues (Continued)

Shipping and Handling Costs

Shipping and handling costs related to contracts with customers for sale of goods are accounted for as a fulfillment activity and are included in cost of products sold. Accordingly, amounts billed to customers for such costs are included as a component of revenues.

Taxes Collected from Customers and Remitted to Governmental Authorities

The Company does not include taxes assessed by governmental authorities that are (i) imposed on and concurrent with a specific revenue-producing transaction and (ii) collected from customers, in the measurement of transactions prices or as a component of revenues and cost of products sold.

Disaggregation of Revenues

The following table presents revenue disaggregated by timing of recognition and major product lines for the three months ended June 30, 2018.

	Topic 606 Revenue			Topic 815[1]	Total
	Point in Time	Over Time	Total	Revenue	Revenues
	(In millions)				
Origination					
Merchandising and Handling	$527	$60	$587	$5,956	$6,543
Transportation	—	63	63	—	63
Total Origination	527	123	650	5,956	6,606
Oilseeds					
Crushing and Origination	131	—	131	4,692	4,823
Refining, Packaging, Biodiesel, and Other	594	—	594	1,258	1,852
Total Oilseeds	725	—	725	5,950	6,675
Carbohydrate Solutions					
Starches and Sweeteners	1,281	—	1,281	423	1,704
Bioproducts	964	—	964	—	964
Total Carbohydrate Solutions	2,245	—	2,245	423	2,668
Nutrition					
Wild Flavors and Specialty Ingredients	693	—	693	—	693
Animal Nutrition	325	—	325	—	325
Total Nutrition	1,018	—	1,018	—	1,018
Other	101	—	101	—	101
Total Revenues	$4,616	$123	$4,739	$12,329	$17,068

[1] Topic 815 revenue relates to the physical delivery or the settlement of the Company’s sales contracts that are accounted for as derivatives and are outside the scope of Topic 606.

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Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 4. Revenues (Continued)

The following table presents revenue disaggregated by timing of recognition and major product lines for the six months ended June 30, 2018.

	Topic 606 Revenue			Topic 815[1]	Total
	Point in Time	Over Time	Total	Revenue	Revenues
	(In millions)				
Origination					
Merchandising and Handling	$1,146	$ 122	$1,268	$11,435	$ 12,703
Transportation	—	118	118	—	118
Total Origination	1,146	240	1,386	11,435	12,821
Oilseeds					
Crushing and Origination	317	—	317	8,116	8,433
Refining, Packaging, Biodiesel, and Other	1,152	—	1,152	2,723	3,875
Total Oilseeds	1,469	—	1,469	10,839	12,308
Carbohydrate Solutions					
Starches and Sweeteners	2,438	—	2,438	904	3,342
Bioproducts	1,948	—	1,948	—	1,948
Total Carbohydrate Solutions	4,386	—	4,386	904	5,290
Nutrition					
Wild Flavors and Specialty Ingredients	1,329	—	1,329	—	1,329
Animal Nutrition	639	—	639	—	639
Total Nutrition	1,968	—	1,968	—	1,968
Other	207	—	207	—	207
Total Revenues	$9,176	$ 240	$9,416	$23,178	$ 32,594

(1) Topic 815 revenue relates to the physical delivery or the settlement of the Company's sales contracts that are accounted for as derivatives and are outside the scope of Topic 606.

Origination

The Origination segment generates revenue from the sale of commodities and from the service fees for the transportation of goods. Revenue is measured based on the consideration specified in the contract and excludes any sales incentives and amounts collected on behalf of third parties. Revenue is recognized when a performance obligation is satisfied by transferring control over a product or providing service to a customer. For transportation service contracts in Transportation, the Company recognizes revenue over time as the barge, ocean-going vessel, truck, rail, or container freight moves towards its destination in accordance with the transfer of control guidance of Topic 606. For fixed and provisionally-priced derivative sales contracts that are outside the scope of Topic 606, the Company recognizes revenue when control of the inventory is transferred within the meaning of Topic 606 as required by Topic 610-20.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 4. Revenues (Continued)

Oilseeds

The Oilseeds segment generates revenue primarily from the sale of products manufactured in its global processing facilities. The segment also generates revenue from the sale of raw commodities in its South American grain origination business and from the sale of peanuts, tree nuts, and peanut-derived ingredients. Revenue is recognized when a performance obligation is satisfied by transferring control over a product. The amount of revenue recognized follows the contractually specified price which may include freight or other contractually specified cost components. For fixed and provisionally-priced derivative sales contracts that are outside the scope of Topic 606, the Company recognizes revenue when control of the inventory is transferred within the meaning of Topic 606 as required by Topic 610-20.

Carbohydrate Solutions

The Carbohydrate Solutions segment generates revenue from the sale of products manufactured at the Company’s global corn and milling facilities around the world. Revenue is recognized when control over products is transferred to the customer. Products are shipped to the customers from the Company’s various facilities and from its network of storage terminals. The amount of revenue recognized is based on the consideration specified in the contract which could include freight and other costs depending on the specific shipping terms of each contract. For fixed and provisionally-priced derivative sales contracts that are outside the scope of Topic 606, the Company recognizes revenue when control of the inventory is transferred within the meaning of Topic 606 as required by Topic 610-20.

Nutrition

The Nutrition segment sells specialty products including natural flavor ingredients, flavor systems, natural colors, animal nutrition products, other specialty food and feed ingredients. Revenue is recognized when control over products is transferred to the customer. The amount of revenue recognized follows the contracted price or the mutually-agreed price of the product. Freight and shipping are recognized as a component of revenue at the same time control transfers to the customer.

Other

Other includes the Company’s futures commission business whose primary sources of revenue are commissions and brokerage income generated from executing orders and clearing futures contracts and options on futures contracts on behalf of its customers. Commissions and brokerage revenue are recognized on the date the transaction is executed. Other also includes the Company’s captive insurance business which generates third party revenue through its proportionate share of premiums from third-party reinsurance pools. Reinsurance premiums are recognized on a straight-line basis over the period underlying the policy.

Contract Assets and Contract Liabilities

Contract assets relate to unbilled amounts resulting from goods already transferred to the customer where revenue recognized exceeds the amount billed to the customer and right to payment is not subject to the passage of time. Contract assets are recorded in other current assets in the consolidated balance sheet and were immaterial as of

June 30, 2018 and the January 1, 2018 transition date.

Contract liabilities relate to advance payments from customers for goods and services that the Company has yet to provide. Contract liabilities of $90 million and $185 million as of June 30, 2018 and January 1, 2018, respectively, are recorded in accrued expenses and other payables in the consolidated balance sheet. Contract liabilities recognized as revenues for the three and six months ended June 30, 2018 were $126 million and $250 million, respectively.

Transaction Price Allocated to Remaining Performance Obligations

The Company generally recognizes revenue at a point in time with the exception of revenue from transportation services which is recognized over time. The majority of the Company’s contracts with customers have one performance obligation and a contract duration of one year or less. The Company applies the practical expedient in paragraph 10-50-14 of Topic 606 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 4. Revenues (Continued)

Impacts on Financial Statements

The following tables summarize the impacts of Topic 606 adoption on the various lines of the Company's consolidated financial statements.

Consolidated Balance Sheet (excerpt)

	January 1, 2018	June 30, 2018		
	After Adoption of Topic 606	As Reported	Under Topic 605	Effect of Change
	(In millions)			
Assets				
Trade receivables	$2,343	$1,900	$1,718	$ 182
Inventories	8,770	7,953	8,152	(199)
Total Current Assets	19,918	18,647	18,664	(17)
Total Assets	$39,956	$38,755	$38,772	$ (17)
Liabilities, Temporary Equity, and Shareholders' Equity				
Accrued expenses and other payables	$2,826	$3,173	$3,184	$ (11)
Total Current Liabilities	12,563	11,718	11,729	(11)
Reinvested earnings	17,552	18,132	18,138	(6)
Total Shareholders' Equity	18,322	18,712	18,718	(6)
Total Liabilities, Temporary Equity, and Shareholders' Equity	$39,956	$38,755	$38,772	$ (17)

Consolidated Statement of Earnings (excerpt)

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	As Reported	Without Adoption of Topic 606	Effect of Change	As Reported	Without Adoption of Topic 606	Effect of Change
	(In millions)					
Revenues	$17,068	$17,197	$ (129)	$32,594	$32,733	$ (139)
Cost of products sold	15,887	16,007	(120)	30,524	30,659	(135)
Gross profit	1,181	1,190	(9)	2,070	2,074	(4)
Earnings before income taxes	652	661	(9)	1,116	1,120	(4)
Income taxes	86	89	(3)	154	155	(1)
Net earnings including noncontrolling interests	566	572	(6)	962	965	(3)
Net earnings attributable to controlling interests	566	572	(6)	959	962	(3)

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements

The following tables set forth, by level, the Company's assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2018 and December 31, 2017.

	Fair Value Measurements at June 30, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In millions)			
Assets:				
Inventories carried at market	$—	$ 2,790	$ 1,378	$4,168
Unrealized derivative gains:				
Commodity contracts	—	509	208	717
Foreign currency contracts	—	246	—	246
Cash equivalents	478	—	—	478
Marketable securities	34	1	—	35
Segregated investments	1,606	—	—	1,606
Deferred receivables consideration	—	386	—	386
Total Assets	$2,118	$ 3,932	$ 1,586	$7,636
Liabilities:				
Unrealized derivative losses:				
Commodity contracts	$—	$ 618	$ 200	$818
Foreign currency contracts	—	335	—	335
Interest rate contracts	—	8	—	8
Inventory-related payables	—	596	22	618
Total Liabilities	$—	$ 1,557	$ 222	$1,779

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

	Fair Value Measurements at December 31, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In millions)			
Assets:				
Inventories carried at market	$—	$ 3,400	$ 1,486	$4,886
Unrealized derivative gains:				
Commodity contracts	—	275	111	386
Foreign currency contracts	—	63	—	63
Cash equivalents	352	—	—	352
Marketable securities	91	1	—	92
Segregated investments	1,733	—	—	1,733
Deferred receivables consideration	—	307	—	307
Total Assets	$2,176	$ 4,046	$ 1,597	$7,819
Liabilities:				
Unrealized derivative losses:				
Commodity contracts	$—	$ 268	$ 103	$371
Foreign currency contracts	—	92	—	92
Interest rate contracts	—	1	—	1
Inventory-related payables	—	680	39	719
Total Liabilities	$—	$ 1,041	$ 142	$1,183

Estimated fair values for inventories carried at market are based on exchange-quoted prices adjusted for differences in local markets, broker or dealer quotations or market transactions in either listed or over-the-counter (OTC) markets. Market valuations for the Company's inventories are adjusted for location and quality because the exchange-quoted prices represent contracts that have standardized terms for commodity, quantity, future delivery period, delivery location, and commodity quality or grade. When unobservable inputs have a significant impact on the measurement of fair value, the inventory is classified in Level 3. Changes in the fair value of inventories are recognized in the consolidated statements of earnings as a component of cost of products sold.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

Derivative contracts include exchange-traded commodity futures and options contracts, forward commodity purchase and sale contracts, and OTC instruments related primarily to agricultural commodities, energy, interest rates, and foreign currencies. Exchange-traded futures and options contracts are valued based on unadjusted quoted prices in active markets and are classified in Level 1. The majority of the Company's exchange-traded futures and options contracts are cash-settled on a daily basis and, therefore, are not included in these tables. Fair value for forward commodity purchase and sale contracts is estimated based on exchange-quoted prices adjusted for differences in local markets. These differences are generally determined using inputs from broker or dealer quotations or market transactions in either the listed or OTC markets. When observable inputs are available for substantially the full term of the contract, it is classified in Level 2. When unobservable inputs have a significant impact (more than 10%) on the measurement of fair value, the contract is classified in Level 3. Except for certain derivatives designated as cash flow hedges, changes in the fair value of commodity-related derivatives are recognized in the consolidated statements of earnings as a component of cost of products sold. Changes in the fair value of foreign currency-related derivatives are recognized in the consolidated statements of earnings as a component of revenues, cost of products sold, or other (income) expense - net depending upon the purpose of the contract. The changes in the fair value of derivatives designated as cash flow hedges are recognized in the consolidated balance sheets as a component of accumulated other comprehensive income (loss) (AOCI) until the hedged items are recorded in earnings or it is probable the hedged transaction will no longer occur.

The Company's cash equivalents are comprised of money market funds valued using quoted market prices and are classified as Level 1.

The Company's marketable securities are comprised of U.S. Treasury securities and corporate debt securities. U.S. Treasury securities are valued using quoted market prices and are classified in Level 1. Corporate debt securities are valued using third-party pricing services and substantially all are classified in Level 2. Unrealized changes in the fair value of available-for-sale marketable debt securities are recognized in the consolidated balance sheets as a component of AOCI unless a decline in value is deemed to be other-than-temporary at which point the decline is recorded in earnings.

The Company's segregated investments are comprised of U.S. Treasury securities. U.S. Treasury securities are valued using quoted market prices and are classified in Level 1.

The Company has deferred consideration under its accounts receivable securitization programs (the "Programs") which represents notes receivable from the purchasers under the Programs (see Note 15). This amount is reflected in other current assets on the consolidated balance sheet (see Note 7). The Company carries the deferred consideration at fair value determined by calculating the expected amount of cash to be received. The fair value is principally based on observable inputs (a Level 2 measurement) consisting mainly of the face amount of the receivables adjusted for anticipated credit losses and discounted at the appropriate market rate. Payment of deferred consideration is not subject to significant risks other than delinquencies and credit losses on accounts receivable transferred under the Programs, which have historically been insignificant.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

The following table presents a rollforward of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended June 30, 2018.

	Level 3 Fair Value Asset Measurements at June 30, 2018		
	Inventories Carried at Market	Commodity Derivative Contracts Gains	Total Assets
	(In millions)		
Balance, March 31, 2018	$1,829	$ 116	$1,945
Total increase (decrease) in net realized/unrealized gains included in cost of products sold*	(11)	125	114
Purchases	2,133	—	2,133
Sales	(2,832)	—	(2,832)
Settlements	—	(78)	(78)
Transfers into Level 3	340	57	397
Transfers out of Level 3	(81)	(12)	(93)
Ending balance, June 30, 2018	$1,378	$ 208	$1,586

* Includes increase in unrealized gains of $105 million relating to Level 3 assets still held at June 30, 2018.

The following table presents a rollforward of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended June 30, 2018.

	Level 3 Fair Value Liability Measurements at June 30, 2018		
	Inventory-related Payables	Commodity Derivative Contracts Losses	Total Liabilities
	(In millions)		
Balance, March 31, 2018	$75	$ 291	$ 366
Total increase (decrease) in net realized/unrealized losses included in cost of products sold*	(9)	48	39
Purchases	3	—	3
Sales	(47)	—	(47)
Settlements	—	(161)	(161)
Transfers into Level 3	—	41	41
Transfers out of Level 3	—	(19)	(19)

Ending balance, June 30, 2018	$22	$ 200	$ 222

* Includes increase in unrealized losses of $48 million relating to Level 3 liabilities still held at June 30, 2018.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

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

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

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

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

	Level 3 Fair Value Liability Measurements at June 30, 2017		
	Inventory-related Payables	Commodity Derivative Contracts Losses	Total Liabilities
	(In millions)		
Balance, March 31, 2017	$28	$ 123	$ 151
Total increase (decrease) in net realized/unrealized losses included in cost of products sold*	(9)	81	72
Purchases	16	—	16
Sales	(3)	—	(3)
Settlements	—	(98)	(98)
Transfers into Level 3	—	49	49
Transfers out of Level 3	—	(1)	(1)
Ending balance, June 30, 2017	$32	$ 154	$ 186

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

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Fair Value Measurements (Continued)

The following table presents a rollforward of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the six months ended June 30, 2018.

	Level 3 Fair Value Asset Measurements at June 30, 2018		
	Inventories Carried at Market	Commodity Derivative Contracts Gains	Total Assets
	(In millions)		
Balance, December 31, 2017	$1,486	$ 111	$1,597
Total increase (decrease) in net realized/unrealized gains included in cost of products sold*	269	172	441
Purchases	4,372	—	4,372
Sales	(4,982)		