ATLANTIC AMERICAN CORP
Form 10-Q
May 13, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014
OR

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

Commission File Number 0-3722

ATLANTIC AMERICAN CORPORATION
(Exact name of registrant as specified in its charter)

Georgia (State or other jurisdiction of incorporation or organization)	58-1027114 (I.R.S. Employer Identification No.)
4370 Peachtree Road, N.E., Atlanta, Georgia (Address of principal executive offices)	30319 (Zip Code)

(404) 266-5500
(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 þ No o

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 þ No ¨

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company þ

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

The total number of shares of the registrant's Common Stock, $1 par value, outstanding on May 7, 2014 was 20,797,451.

ATLANTIC AMERICAN CORPORATION

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

ATLANTIC AMERICAN CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

ASSETS

	Unaudited March 31, 2014	December 31, 2013
Cash and cash equivalents	$ 27,178	$ 33,102
Investments:		
Fixed maturities (cost: $201,245 and $201,217)	206,809	201,303
Common and non-redeemable preferred stocks (cost: $12,164 and $12,432)	17,476	21,890
Other invested assets (cost: $2,077 and $2,123)	2,077	2,123
Policy loans	2,294	2,369
Real estate	38	38
Investment in unconsolidated trusts	1,238	1,238
Total investments	229,932	228,961
Receivables:		
Reinsurance	14,551	14,314
Insurance premiums and other (net of allowance for doubtful accounts: $275 and $339)	6,819	9,343
Deferred income taxes, net	-	363
Deferred acquisition costs	27,296	27,509
Other assets	3,622	3,245
Intangibles	2,544	2,544
Total assets	$ 311,942	$ 319,381

LIABILITIES AND SHAREHOLDERS' EQUITY

Insurance reserves and policyholder funds:		
Future policy benefits	$ 70,054	$ 69,864
Unearned premiums	20,757	27,415
Losses and claims	65,389	63,018
Other policy liabilities	1,583	2,076
Total insurance reserves and policyholder funds	157,783	162,373
Accounts payable and accrued expenses	10,848	14,843
Deferred income taxes, net	213	-
Junior subordinated debenture obligations	41,238	41,238
Total liabilities	210,082	218,454
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Preferred stock, $1 par, 4,000,000 shares authorized; Series D preferred, 65,000 shares issued and outstanding; $6,500 redemption value	65	65
Common stock, $1 par, 50,000,000 shares authorized; shares issued: 22,400,894; shares outstanding: 21,092,519 and 21,117,874	22,401	22,401
Additional paid-in capital	57,212	57,103
Retained earnings	19,018	18,738

Accumulated other comprehensive income	7,070	6,204
Unearned stock grant compensation	(576)	(485)
Treasury stock, at cost: 1,308,375 and 1,283,020 shares	(3,330)	(3,099)
Total shareholders' equity	101,860	100,927
Total liabilities and shareholders' equity	$311,942	$319,381

The accompanying notes are an integral part of these consolidated financial statements.

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ATLANTIC AMERICAN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; Dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2014	2013
Revenue:		
Insurance premiums	$38,418	$33,019
Investment income	2,598	2,905
Realized investment gains, net	108	678
Other income	36	48
Total revenue	41,160	36,650
Benefits and expenses:		
Insurance benefits and losses incurred	26,828	23,362
Commissions and underwriting expenses	9,907	9,283
Interest expense	429	577
Other expense	3,003	2,417
Total benefits and expenses	40,167	35,639
Income before income taxes	993	1,011
Income tax expense	173	89
Net income	820	922
Preferred stock dividends	(118)	(127)
Net income applicable to common shareholders	$702	$795
Earnings per common share (basic and diluted)	$.03	$.04

The accompanying notes are an integral part of these consolidated financial statements.

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ATLANTIC AMERICAN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited; Dollars in thousands)

	Three Months Ended March 31,	
	2014	2013
Net income	$820	$922
Other comprehensive income (loss):		
Available-for-sale securities:		
Gross unrealized holding gain (loss) arising in the period	1,440	(2,246)
Related income tax effect	(504)	786
Less: reclassification adjustment for net realized gains included in net income [1]	(108)	(678)
Related income tax effect [2]	38	237
Net effect on other comprehensive income (loss)	866	(1,901)
Derivative financial instrument:		
Fair value adjustment to derivative financial instrument	-	141
Related income tax effect	-	(49)
Net effect on other comprehensive income (loss)	-	92
Total other comprehensive income (loss), net of tax	866	(1,809)
Total comprehensive income (loss)	$1,686	$(887)

(1) Realized gains on available-for-sale securities recognized in realized investment gains, net on the accompanying condensed consolidated statements of operations.

(2) Income tax effect on reclassification adjustment for net realized gains included in income tax expense on the accompanying condensed consolidated statements of operations.

The accompanying notes are an integral part of these consolidated financial statements.

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ATLANTIC AMERICAN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited; Dollars in thousands)

Three Months Ended March 31, 2014	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Stock Grant Compensation	Treasury Stock	Total
Balance, December 31, 2013	$ 65	$ 22,401	$ 57,103	$ 18,738	$ 6,204	$ (485)	$ (3,099)	$ 100,927
Net income	-	-	-	820	-	-	-	820
Other comprehensive income, net of tax	-	-	-	-	866	-	-	866
Dividends declared on common stock	-	-	-	(422)	-	-	-	(422)
Dividends accrued on preferred stock	-	-	-	(118)	-	-	-	(118)
Restricted stock grants	-	-	102	-	-	(178)	76	-
Amortization of unearned compensation	-	-	-	-	-	87	-	87
Purchase of shares for treasury	-	-	-	-	-	-	(312)	(312)
Issuance of shares under stock plans	-	-	7	-	-	-	5	12
Balance, March 31, 2014	$ 65	$ 22,401	$ 57,212	$ 19,018	$ 7,070	$ (576)	$ (3,330)	$ 101,860
Three Months Ended March 31, 2013								
Balance, December 31, 2012	$ 70	$ 22,401	$ 57,180	$ 8,621	$ 19,571	$ -	$ (2,107)	$ 105,736
Net income	-	-	-	922	-	-	-	922
Other comprehensive loss, net of tax	-	-	-	-	(1,809)	-	-	(1,809)
Dividends declared on common stock	-	-	-	(423)	-	-	-	(423)
Dividends accrued on preferred stock	-	-	-	(127)	-	-	-	(127)
Purchase of shares for treasury	-	-	-	-	-	-	(272)	(272)
Balance, March 31, 2013	$ 70	$ 22,401	$ 57,180	$ 8,993	$ 17,762	$ -	$ (2,379)	$ 104,027

The accompanying notes are an integral part of these consolidated financial statements.

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ATLANTIC AMERICAN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; Dollars in thousands)

	Three Months Ended March 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$820	$922
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization of deferred acquisition costs	2,849	2,796
Acquisition costs deferred	(2,636)	(3,273)
Realized investment gains, net	(108)	(678)
Decrease in insurance reserves	(4,590)	(3,583)
Compensation expense related to share awards	87	-
Depreciation and amortization	213	142
Deferred income tax expense	110	87
Decrease in receivables, net	2,287	1,564
Decrease in other liabilities	(3,376)	(858)
Other, net	18	48
Net cash used in operating activities	(4,326)	(2,833)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investments sold, called or matured	11,570	13,521
Investments purchased	(11,202)	(10,510)
Additions to property and equipment	(1,666)	(80)
Net cash (used in) provided by investing activities	(1,298)	2,931
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from shares issued under stock plans	12	-
Purchase of shares for treasury	(312)	(272)
Net cash used in financing activities	(300)	(272)
Net decrease in cash and cash equivalents	(5,924)	(174)
Cash and cash equivalents at beginning of period	33,102	18,951
Cash and cash equivalents at end of period	$27,178	$18,777
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$435	$643
Cash paid for income taxes	$292	$310

The accompanying notes are an integral part of these consolidated financial statements.

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ATLANTIC AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; Dollars in thousands, except per share amounts)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Atlantic American Corporation (the "Parent") and its subsidiaries (collectively with the Parent, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for audited annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The unaudited condensed consolidated financial statements included herein and these related notes should be read in conjunction with the Company's consolidated financial statements, and the notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The Company's financial condition and results of operations as of and for the three month period ended March 31, 2014 are not necessarily indicative of the financial condition or results of operations that may be expected for the year ending December 31, 2014 or for any other future period.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Note 2. Segment Information

The Company's primary operating subsidiaries, American Southern Insurance Company and American Safety Insurance Company (together known as "American Southern") and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as "Bankers Fidelity") operate in two principal business units, each focusing on specific products. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. Each business unit is managed independently and is evaluated on its individual performance. The following sets forth the revenue and income before income taxes for each business unit for the three month periods ended March 31, 2014 and 2013.

Revenues	Three Months Ended March 31,	
	2014	2013
American Southern	$14,201	$10,490
Bankers Fidelity	26,838	25,938
Corporate and Other	121	222
Total revenue	$41,160	$36,650

Income Before Income Taxes	Three Months Ended March 31,	
	2014	2013
American Southern	$1,057	$1,442
Bankers Fidelity	1,648	1,037

Corporate and Other	(1,712)	(1,468)
Income before income taxes	$993	$1,011

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Note 3. Junior Subordinated Debentures

The Company has two unconsolidated Connecticut statutory business trusts, which exist for the exclusive purposes of: (i) issuing trust preferred securities ("Trust Preferred Securities") representing undivided beneficial interests in the assets of the trusts; (ii) investing the gross proceeds of the Trust Preferred Securities in junior subordinated deferrable interest debentures ("Junior Subordinated Debentures") of Atlantic American; and (iii) engaging in only those activities necessary or incidental thereto.

The financial structure of each of Atlantic American Statutory Trust I and II as of March 31, 2014 was as follows:

	Atlantic American Statutory Trust I	Atlantic American Statutory Trust II
JUNIOR SUBORDINATED DEBENTURES [(1) (2)]		
Principal amount owed	$ 18,042	$ 23,196
Balance March 31, 2014	18,042	23,196
Balance December 31, 2013	18,042	23,196
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Interest payable	Quarterly	Quarterly
Maturity date	December 4, 2032	May 15, 2033
Redeemable by issuer	Yes	Yes
TRUST PREFERRED SECURITIES		
Issuance date	December 4, 2002	May 15, 2003
Securities issued	17,500	22,500
Liquidation preference per security	$ 1	$ 1
Liquidation value	17,500	22,500
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Distribution payable	Quarterly	Quarterly
Distribution guaranteed by [(3)]	Atlantic American Corporation	Atlantic American Corporation

(1) For each of the respective debentures, the Company has the right at any time, and from time to time, to defer payments of interest on the Junior Subordinated Debentures for a period not exceeding 20 consecutive quarters up to the debentures' respective maturity dates. During any such period, interest will continue to accrue and the Company may not declare or pay any cash dividends or distributions on, or purchase, the Company's common stock nor make any principal, interest or premium payments on or repurchase any debt securities that rank equally with or junior to the Junior Subordinated Debentures. The Company has the right at any time to dissolve each of the trusts and cause the Junior Subordinated Debentures to be distributed to the holders of the Trust Preferred Securities.

(2) The Junior Subordinated Debentures are unsecured and rank junior and subordinate in right of payment to all senior debt of the Parent and are effectively subordinated to all existing and future liabilities of its subsidiaries.

(3)

The Parent has guaranteed, on a subordinated basis, all of the obligations under the Trust Preferred Securities, including payment of the redemption price and any accumulated and unpaid distributions to the extent of available funds and upon dissolution, winding up or liquidation.

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Note 4. Earnings Per Common Share

A reconciliation of the numerator and denominator used in the earnings per common share calculations is as follows:

	Three Months Ended March 31, 2014		
	Income	Shares (In thousands)	Per Share Amount
Basic and Diluted Earnings Per Common Share:			
Net income	$820	21,073	
Less preferred stock dividends	(118)	-	
Net income applicable to common shareholders	$702	21,073	$ .03

	Three Months Ended March 31, 2013		
	Income	Shares (In thousands)	Per Share Amount
Basic Earnings Per Common Share:			
Net income	$922	21,182	
Less preferred stock dividends	(127)		
Net income applicable to common shareholders	795	21,182	$ .04
Diluted Earnings Per Common Share:			
Effect of dilutive stock options		40	
Net income applicable to common shareholders	$795	21,222	$ .04

The assumed conversion of the Company's Series D preferred stock was excluded from the earnings per common share calculation for all periods presented since its impact would have been antidilutive. There were no stock options outstanding in the three month period ended March 31, 2014.

Note 5. Income Taxes

A reconciliation of the differences between income taxes computed at the federal statutory income tax rate and income tax expense is as follows:

	Three Months Ended March 31,	
	2014	2013
Federal income tax provision at statutory rate of 35%	$348	$354
Dividends-received deduction	(31)	(37)
Small life insurance company deduction	(116)	-
Other permanent differences	10	9
Change in asset valuation allowance due to change in judgment relating to realizability of deferred tax assets	(38)	(237)
Income tax expense	$173	$89

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The components of income tax expense were:

	Three Months Ended March 31,	
	2014	2013
Current – Federal	$63	$2
Deferred – Federal	148	324
Change in deferred tax asset valuation allowance	(38)	(237)
Total	$173	$89

that the Board of Directors may elect to retain and add to our unallocated capital reserve an amount not to exceed 10% of the distributable net income from patronage business. We may also distribute net income derived from patronage business with a non-member if we have agreed to conduct business with the non-member on a patronage basis. Net income from non-patronage business may be distributed to members or added to the unallocated capital reserve, in whatever proportions the Board of Directors deems appropriate.

Distributions on the basis of patronage, referred to as patronage dividends, may be made in cash, patrons equities, revolving fund certificates, our securities, securities of others, or any combination designated by the Board of Directors. From fiscal 1998 through fiscal 2005, the Board of Directors approved the distribution of patronage dividends to be in the form of 30% cash and 70% patrons equities (see Patrons Equities below). For fiscal 2006 through 2008, the Board of Directors approved the distribution of patronage dividends in the form of 35% cash and 65% patrons equities. The Board of Directors may change the mix in the form of the patronage dividends in the future. In making distributions, the Board of Directors may use any method of allocation that, in its judgment, is reasonable and equitable.

Patronage dividends distributed during the years ended August 31, 2008, 2007 and 2006, were $557.2 million ($195.0 million in cash), $379.9 million ($133.1 million in cash) and $207.9 million ($62.5 million in cash), respectively.

Patrons Equities

Patrons equities are in the form of book entries and represent a right to receive cash or other property when we redeem them. Patrons equities form part of our capital, do not bear interest, and are not subject to

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redemption upon request of a member. Patrons equities are redeemable only at the discretion of the Board of Directors and in accordance with the terms of the redemption policy adopted by the Board of Directors, which may be modified at any time without member consent. Redemptions of capital equity certificates approved by the Board of Directors are divided into two pools, one for non-individuals (primarily member cooperatives) who may participate in an annual pro-rata program for equities held by them and another for individuals who are eligible for equity redemptions at age 70 or upon death. The amount that each non-individual receives under the pro-rata program in any year will be determined by multiplying the dollars available for pro-rata redemptions, if any that year, as determined by the Board of Directors, by a fraction, the numerator of which is the face value of patronage certificates eligible for redemption held by them, and the denominator of which is the sum of the patronage certificates eligible for redemption held by all eligible holders of patronage certificates that are not individuals. In addition to the annual pro-rata program, the Board of Directors approved additional equity redemptions to non-individuals in prior years targeting older capital equity certificates which were redeemed in cash in fiscal 2008 and 2007. In accordance with authorization from the Board of Directors, we expect total redemptions related to the year ended August 31, 2008, that will be distributed in fiscal 2009, to be approximately $93.8 million.

Cash redemptions of patrons and other equities during the years ended August 31, 2008, 2007 and 2006 were $81.8 million, $70.8 million and $55.9 million, respectively. An additional $46.4 million, $35.9 and $23.8 million of equities were redeemed by issuance of shares of our 8% Cumulative Redeemable Preferred Stock during the years ended August 31, 2008, 2007 and 2006, respectively.

Governance

We are managed by a Board of Directors of not less than 17 persons elected by the members at our annual meeting. Terms of directors are staggered so that no more than six directors are elected in any year. The Board of Directors is currently comprised of 17 directors. Our articles of incorporation and bylaws may be amended only upon approval of a majority of the votes cast at an annual or special meeting of our members, except for the higher vote described under Certain Antitakeover Measures below.

Membership

Membership in CHS is restricted to certain producers of agricultural products and to associations of producers of agricultural products that are organized and operating so as to adhere to the provisions of the Agricultural Marketing Act and the Capper-Volstead Act, as amended. The Board of Directors may establish other qualifications for membership, as it may from time to time deem advisable.

As a membership cooperative, we do not have common stock. We may issue equity or debt instruments, on a patronage basis or otherwise, to our members. We have two classes of outstanding membership. Individual members are individuals actually engaged in the production of agricultural products. Cooperative associations are associations of agricultural producers and may be either cooperatives or other associations organized and operated under the provisions of the Agricultural Marketing Act and the Capper-Volstead Act.

Voting Rights

Voting rights arise by virtue of membership in CHS, not because of ownership of any equity or debt instruments. Members that are cooperative associations are entitled to vote based upon a formula that takes into account the equity held by the cooperative in CHS and the average amount of business done with us over the previous three years.

Members who are individuals are entitled to one vote each. Individual members may exercise their voting power directly or through patrons associations affiliated with a grain elevator, feed mill, seed plant or any other of our

facilities (with certain historical exceptions) recognized by the Board of Directors. The number of votes of patrons associations is determined under the same formula as cooperative association members.

Most matters submitted to a vote of the members require the approval of a majority of the votes cast at a meeting of the members, although certain actions require a greater vote. See Certain Antitakeover Measures below.

Debt and Equity Instruments

We may issue debt and equity instruments to our current members and patrons, on a patronage basis or otherwise, and to persons who are neither members nor patrons. Capital equity certificates issued by us are subject to a first lien in favor of us for all indebtedness of the holder to us. On August 31, 2008, our outstanding capital includes patrons equities (consisting of capital equity certificates and non-patronage earnings certificates), 8% Cumulative Redeemable Preferred Stock and certain capital reserves.

Distribution of Assets upon Dissolution; Merger and Consolidation

In the event of our dissolution, liquidation or winding up, whether voluntary or involuntary, all of our debts and liabilities would be paid first according to their respective priorities. After such payment, the holders of each share of our preferred stock would then be entitled to receive out of available assets, up to $25.00 per share, plus all dividends accumulated and unpaid on that share, whether or not declared, to and including the date of distribution. This distribution to the holders of our preferred stock would be made before any payment is made or assets distributed to the holders of any security that ranks junior to the preferred stock but after the payment of the liquidation preference of any of our securities that rank senior to the preferred stock. After such distribution to the holders of equity capital, any excess would be paid to patrons on the basis of their past patronage with us. Our bylaws provide for the allocation among our members and nonmember patrons of the consideration received in any merger or consolidation to which we are a party.

Certain Antitakeover Measures

Our governing documents may be amended upon the approval of a majority of the votes cast at an annual or special meeting. However, if the Board of Directors, in its sole discretion, declares that a proposed amendment to our governing documents involves or is related to a hostile takeover, the amendment must be adopted by 80% of the total voting power of our members.

The approval of not less than two-thirds of the votes cast at a meeting is required to approve a change of control transaction which would include a merger, consolidation, liquidation, dissolution, or sale of all or substantially all of our assets. If the Board of Directors determines that a proposed change of control transaction involves a hostile takeover, the 80% approval requirement applies. The term hostile takeover is not further defined in the Minnesota cooperative law or our governing documents.

Tax Treatment

Subchapter T of the Internal Revenue Code sets forth rules for the tax treatment of cooperatives and applies to both cooperatives exempt from taxation under Section 521 of the Internal Revenue Code and to nonexempt corporations operating on a cooperative basis. We are a nonexempt cooperative.

As a cooperative, we are not taxed on qualified patronage income (minimum cash requirement of 20%) allocated to our members either in the form of equities or cash. Consequently, those amounts are taxed only at the patron level. However, the amounts of any allocated but undistributed patronage earnings (called non-qualified unit retains) are taxable to us when allocated. Upon redemption of any non-qualified unit retains, the amount is deductible to us and taxable to the member.

Income derived by us from non-patronage sources is not entitled to the single tax benefit of Subchapter T and is taxed to us at corporate income tax rates.

NCRA is not consolidated for tax purposes.

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SELECTED CONSOLIDATED FINANCIAL DATA

The selected financial information below has been derived from our consolidated financial statements for the years ended August 31. The selected consolidated financial information for August 31, 2008, 2007 and 2006, should be read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this prospectus. In May 2005, we sold the majority of our Mexican foods business and have recorded the Mexican foods business as discontinued operations.

Summary Consolidated Financial Data

	2008	2007	2006	2005	2004
			(Dollars in thousands)		
Income Statement Data:					
Revenues	$ 32,167,461	$ 17,215,992	$ 14,383,835	$ 11,926,962	$ 10,969,081
Cost of goods sold	30,993,899	16,129,233	13,540,285	11,438,473	10,525,746
Gross profit	1,173,562	1,086,759	843,550	488,489	443,335
Marketing, general and administrative	329,965	245,357	231,238	199,354	202,455
Operating earnings	843,597	841,402	612,312	289,135	240,880
Gain on investments	(29,193)	(20,616)		(13,013)	(14,666)
Gain on legal settlements					(692)
Interest, net	76,460	31,098	41,305	41,509	42,758
Equity income from investments	(150,413)	(109,685)	(84,188)	(95,742)	(79,022)
Minority interests	72,160	143,214	91,079	49,825	34,184
Income from continuing operations before income taxes	874,583	797,391	564,116	306,556	258,318
Income taxes	71,538	40,668	59,350	34,153	30,108
Income from continuing operations	803,045	756,723	504,766	272,403	228,210
(Income) loss on discontinued operations, net of taxes			(625)	16,810	5,909
Net income	$ 803,045	$ 756,723	$ 505,391	$ 255,593	$ 222,301
Balance Sheet Data (August 31):					
Working capital	$ 1,738,600	$ 821,878	$ 848,344	$ 766,807	$ 500,315
Net property, plant and equipment	1,948,305	1,728,171	1,476,239	1,359,535	1,249,655
Total assets	8,771,978	6,754,373	4,994,166	4,748,654	4,047,710

Long-term debt, including current maturities	1,194,855	688,321	744,745	773,074	683,818
Total equities	2,955,686	2,475,455	2,053,466	1,778,879	1,643,491
Ratio of earnings to fixed charges and preferred dividends(1)	7.4x	10.1x	8.3x	4.7x	4.5x

(1) For purposes of computing the ratio of earnings to fixed charges and preferred dividends, earnings consist of income from continuing operations before income taxes on consolidated operations, distributed income from equity investees and fixed charges. Fixed charges consist of interest expense and one-third of rental expense, considered representative of that portion of rental expense estimated to be attributable to interest.

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The selected financial information below has been derived from our three business segments, and Corporate and Other, for the years ended August 31, 2008, 2007 and 2006. The intercompany revenues between segments were $359.8 million, $247.7 million and $251.6 million for the years ended August 31, 2008, 2007 and 2006, respectively.

Summary Financial Data By Business Segment

	Energy 2008	Energy 2007	Energy 2006	Ag Business 2008	Ag Business 2007	Ag Business 2006
	(Dollars in thousands)					
Revenues	$ 11,499,814	$ 8,105,067	$ 7,414,361	$ 19,696,907	$ 8,575,389	$ 6,575,165
Cost of goods sold	11,027,459	7,264,180	6,804,454	19,088,079	8,388,476	6,401,527
Gross profit	472,355	840,887	609,907	608,828	186,913	173,638
Marketing, general and administrative	111,121	94,939	82,867	160,364	97,299	99,777
Operating earnings	361,234	745,948	527,040	448,464	89,614	73,861
Gain on investments	(35)			(100,830)	(5,348)	
Interest, net	(5,227)	(6,106)	6,534	63,665	28,550	23,559
Equity income from investments	(5,054)	(4,468)	(3,840)	(83,053)	(51,830)	(40,902)
Minority interests	71,805	143,230	91,588	355	(16)	(509)
Income before income taxes	$ 299,745	$ 613,292	$ 432,758	$ 568,327	$ 118,258	$ 91,713
Intersegment revenues	$ (322,522)	$ (228,930)	$ (242,430)	$ (36,972)	$ (18,372)	$ (8,779)
Total identifiable assets August 31	$ 3,216,852	$ 2,797,831	$ 2,215,800	$ 4,172,950	$ 2,846,950	$ 1,806,243

	Processing 2008	Processing 2007	Processing 2006	Corporate and Other 2008	Corporate and Other 2007	Corporate and Other 2006
Revenues	$ 1,299,209	$ 754,743	$ 614,471	$ 31,363	$ 28,465	$ 31,415
Cost of goods sold	1,240,944	726,510	588,732	(2,751)	(2,261)	(2,851)
Gross profit	58,265	28,233	25,739	34,114	30,726	34,266
Marketing, general and administrative	26,089	23,545	21,645	32,391	29,574	26,949
Operating earnings	32,176	4,688	4,094	1,723	1,152	7,317
Loss (gain) on investments	72,602	(15,268)		(930)		
Interest, net	21,995	14,783	11,096	(3,973)	(6,129)	116

Equity income from investments	(56,615)	(48,446)	(35,504)	(5,691)	(4,941)	(3,942)
(Loss) income before income taxes	$ (5,806)	$ 53,619	$ 28,502	$ 12,317	$ 12,222	$ 11,143
Intersegment revenues	$ (338)	$ (370)	$ (368)			
Total identifiable assets August 31	$ 748,989	$ 681,118	$ 518,186	$ 633,187	$ 428,474	$ 453,937

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Supplementary Financial Information

Supplementary financial information required by Item 302 of Regulation S-K for each quarter during the years ended August 31, 2008 and 2007 is presented below.

	November 30, 2007	February 29, 2008	May 31, 2008	August 31, 2008
	(Unaudited, dollars in thousands)			
Revenues	$ 6,525,386	$ 6,891,345	$ 9,336,609	$ 9,414,121
Gross profit	314,637	257,625	280,642	320,658
Income before income taxes	337,800	197,366	212,347	127,070
Net income	300,900	168,031	188,716	145,398

	November 30, 2006	February 28, 2007	May 31, 2007	August 31, 2007
	(Unaudited, dollars in thousands)			
Revenues	$ 3,751,070	$ 3,734,580	$ 4,732,465	$ 4,997,877
Gross profit	222,434	147,941	330,908	385,476
Income before income taxes	153,611	89,592	262,717	291,471
Net income	136,379	83,673	239,596	297,075

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The following discussions of financial condition and results of operations should be read in conjunction with the accompanying audited financial statements and notes to such statements and the cautionary statement regarding forward-looking statements found in the Risk Factors section of this prospectus. This discussion contains forward-looking statements based on current expectations, assumptions, estimates and projections of our management. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, as more fully described in the cautionary statement and elsewhere in this prospectus.

CHS Inc. (CHS, we or us) is a diversified company, which provides grain, foods and energy resources to businesses and consumers on a global basis. As a cooperative, we are owned by farmers, ranchers and their member cooperatives from the Great Lakes to the Pacific Northwest and from the Canadian border to Texas. We also have preferred stockholders that own shares of our 8% Cumulative Redeemable Preferred Stock.

We provide a full range of production agricultural inputs such as refined fuels, propane, farm supplies, animal nutrition and agronomy products, as well as services, which include hedging, financing and insurance. We own and operate petroleum refineries and pipelines and market and distribute refined fuels and other energy products under the Cenex® brand through a network of member cooperatives and independent retailers. We purchase grains and oilseeds directly and indirectly from agricultural producers primarily in the midwestern and western United States. These grains and oilseeds are either sold to domestic and international customers, or further processed into a variety of grain-based food products.

We have aligned our business segments based on an assessment of how our businesses operate and the products and services they sell. Our three business segments: Energy, Ag Business and Processing, create vertical integration to link producers with consumers. Our Energy segment produces and provides primarily for the wholesale distribution of petroleum products and transports those products. Our Ag Business segment purchases and resells grains and oilseeds originated by our country operations business, by our member cooperatives and by third parties, and also serves as wholesaler and retailer of crop inputs. Our Processing segment converts grains and oilseeds into value-added products.

Summary data for each of our business segments for the years ended August 31, 2008, 2007 and 2006, is provided in Item 6 Selected Financial Data . Except as otherwise specified, references to years indicate our year ended August 31, 2008, or ended August 31 of the year referenced.

Corporate administrative expenses are allocated to all three business segments, and Corporate and Other, based on either direct usage for services that can be tracked, such as information technology and legal, and other factors or considerations relevant to the costs incurred.

Many of our business activities are highly seasonal and operating results will vary throughout the year. Overall, our income is generally lowest during the second fiscal quarter and highest during the third fiscal quarter. Our business segments are subject to varying seasonal fluctuations. For example, in our Ag Business segment, our retail agronomy, wholesale crop nutrients and country operations businesses generally experience higher volumes and income during the spring planting season and in the fall, which corresponds to harvest. Also in our Ag Business segment, our grain marketing operations are subject to fluctuations in volume and earnings based on producer harvests, world grain prices and demand. Our Energy segment generally experiences higher volumes and profitability in certain operating areas,

such as refined products, in the summer and early fall when gasoline and diesel fuel usage is highest and is subject to global supply and demand forces. Other energy products, such as propane, may experience higher volumes and profitability during the winter heating and crop drying seasons.

Our revenues, assets and cash flows can be significantly affected by global market prices for commodities such as petroleum products, natural gas, grains, oilseeds, crop nutrients and flour. Changes in market prices for commodities that we purchase without a corresponding change in the selling prices of those products can

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affect revenues and operating earnings. Commodity prices are affected by a wide range of factors beyond our control, including the weather, crop damage due to disease or insects, drought, the availability and adequacy of supply, government regulations and policies, world events, and general political and economic conditions.

While our revenues and operating results are derived from businesses and operations which are wholly-owned and majority-owned, a portion of our business operations are conducted through companies in which we hold ownership interests of 50% or less and do not control the operations. We account for these investments primarily using the equity method of accounting, wherein we record our proportionate share of income or loss reported by the entity as equity income from investments, without consolidating the revenues and expenses of the entity in our Consolidated Statements of Operations. These investments principally include our 50% ownership in each of the following companies: Agriliance, TEMCO and United Harvest, and our 40% ownership in Multigrain S.A. included in our Ag Business segment; our 50% ownership in Ventura Foods, our 24% ownership in Horizon Milling and Horizon Milling G.P., included in our Processing segment; and our 49% ownership in Cofina Financial included in Corporate and Other.

Agriliance is owned and governed by United Country Brands, LLC (United Country Brands) (50%) and Land O Lakes (50%). United Country Brands is a 100% owned subsidiary of CHS. We account for our share of the Agriliance investment using the equity method of accounting. Prior to September 1, 2007, Agriliance was a wholesale and retail crop nutrients and crop protection products company. In September 2007, Agriliance distributed the assets of the crop nutrients business to us, and the assets of the crop protection business to Land O Lakes. After the distributions, Agriliance continues to exist as a 50-50 joint venture and primarily operates an agronomy retail distribution business. During the year ended August 31, 2008, our net contribution to Agriliance was $235.0 million, which supported their working capital requirements, with Land O Lakes making equal contributions to Agriliance, and includes crop nutrient and crop protection product net trade payables that were not assumed by us or Land O Lakes upon the distribution of the crop nutrients and crop protection assets, as well as Agriliance s ongoing retail operations.

Due to our 50% ownership interest in Agriliance and the 50% ownership interest of Land O Lakes, each company was entitled to receive 50% of the distributions from Agriliance. Given the different preliminary values assigned to the assets of the crop nutrients and the crop protection businesses of Agriliance, at the closing of the distribution transaction Land O Lakes owed us $133.5 million. Land O Lakes paid us $32.6 million in cash, and in order to maintain equal capital accounts in Agriliance, they also paid down certain portions of Agriliance debt on our behalf in the amount of $100.9 million. Values of the distributed assets were determined after the closing and in October 2007, we made a true-up payment to Land O Lakes in the amount of $45.7 million, plus interest. The final true-up is expected to occur during fiscal 2009.

The distribution of assets we received from Agriliance for the crop nutrients business had a book value of $248.2 million. We recorded 50% of the value of the net assets received at book value due to our ownership interest in those assets when they were held by Agriliance, and 50% of the value of the net assets at fair value using the purchase method of accounting. Values assigned to the net assets acquired totaled $268.7 million.

During the first quarter of fiscal 2008, we changed our accounting method for the costs of major maintenance (turnarounds) from the accrual method to the deferral method. Turnarounds are the scheduled and required shutdowns of refinery processing units for significant overhaul and refurbishment. Under the deferral accounting method, the costs of turnarounds are deferred when incurred and amortized on a straight-line basis over the period of time estimated to lapse until the next turnaround occurs. The new method of accounting for turnarounds was adopted in order to adhere to Financial Accounting Standards Board (FASB) Staff Position (FSP) No. AUG AIR-1 Accounting for Planned Major Maintenance Activities which prohibits the accrual method of accounting for planned major maintenance activities. The effect of this change in accounting principle to our Consolidated Statements of Operations for the years ended August 31, 2007 and 2006, was to increase net income by $6.4 million and $15.1 million,

respectively. In addition, equity was increased by $42.5 million and $36.1 million as of August 31, 2007 and 2006, respectively.

Effective September 1, 2007, we adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). This interpretation clarifies the criteria for recognizing income tax benefits under FASB Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes , and

requires additional disclosures about uncertain tax positions. FIN 48 requires a taxpayer to determine whether a tax position is more likely than not (greater than 50 percent) to be sustained based solely on the technical merits of the position. If this threshold is met, the tax benefit is measured and recognized at the largest amount that is greater than 50 percent likely of being realized. The total amount of unrecognized tax benefits, including penalties and interest, as of September 1, 2007 and August 31, 2008, were $7.5 million and $6.2 million, respectively. There was no impact to our equity as a result of adoption of FIN 48. Recognition of all or a portion of the unrecognized tax benefits would affect our effective income tax rate in the respective period of change. Any applicable interest and penalties on uncertain tax positions were included as a component of income tax expense prior to the adoption of FIN 48, and we have continued this classification subsequent to the adoption. The liability for uncertain income taxes as of September 1, 2007 and August 31, 2008, includes estimated interest and penalties of $0.3 million. We file income tax returns in the U.S. federal jurisdiction and various U.S. state and foreign jurisdictions. The U.S. income tax returns for periods ended after August 31, 2004, remain subject to examination. With limited exceptions, we are not subject to state and local income tax examinations for years before August 31, 2004. We do not expect that the amount of unrecognized tax benefits will significantly change within the next twelve months.

We own 12,905,882 shares of the outstanding common stock of VeraSun, which represents an approximate 8% ownership interest that is accounted for as an available-for-sale investment under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities . Due to the continued decline of the ethanol industry and the Current Report on Form 8-K filed by VeraSun on September 16, 2008, we determined that an impairment was necessary of our investment in VeraSun. We applied FSP FAS 115-1 and FAS 124-1 The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments to determine the amount of the impairment. As a result, based on VeraSun s market value of $5.76 per share on August 29, 2008, an impairment charge in the amount of $71.7 million ($55.3 million net of taxes) was recorded during the fourth quarter of our year ended August 31, 2008. The impairment did not affect our cash flows and did not have a bearing upon our compliance with any covenants under our credit facilities. Subsequent to August 31, 2008, the market value of VeraSun s stock price continued to decline, and on October 31, 2008, VeraSun filed for voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. We will be evaluating an additional impairment during our first quarter of fiscal 2009. Our investment on August 31, 2008, was $74.3 million.

In May 2005, we sold the majority of our Mexican foods business, with minor activity continuing in 2006. During the year ended August 31, 2006, we sold all of the remaining assets for proceeds of $4.2 million and a gain of $1.6 million. The operating results of the Mexican foods business have been reported as discontinued operations.

The consolidated financial statements include the accounts of CHS and all of our wholly-owned and majority-owned subsidiaries, including NCRA, which is in our Energy segment. All significant intercompany accounts and transactions have been eliminated.

Certain reclassifications have been made to prior year s amounts to conform to current year classifications. These reclassifications had no effect on previously reported net income, equities and comprehensive income, or cash flows.

Recent Events

Cofina Financial, a joint venture finance company formed in fiscal 2005, makes seasonal and term loans to member cooperatives and businesses and to individual producers of agricultural products. Through August 31, 2008, we held a 49% ownership interest in Cofina Financial and accounted for our investment using the equity method of accounting. On September 1, 2008, we purchased Cenex Finance Association s remaining 51% ownership interest for $53.3 million.

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Results of Operations

Comparison of the years ended August 31, 2008 and 2007

General. We recorded income before income taxes of $874.6 million in fiscal 2008 compared to $797.4 million in fiscal 2007, an increase of $77.2 million (10%). These results reflected increased pretax earnings in our Ag Business segment, and Corporate and Other, while our Energy and Processing segments reflected decreased pretax earnings.

Our Energy segment generated income from continuing operations before income taxes of $299.7 million for the year ended August 31, 2008 compared to $613.3 million in fiscal 2007. This decrease in earnings of $313.6 million (51%) is primarily from lower margins at the NCRA refinery in McPherson, Kansas and at our Laurel refinery, in addition to reduced margins on refined fuels from a planned major maintenance project, during which time our production was reduced at our Laurel, Montana refinery. Earnings in our lubricants, renewable fuels marketing, propane and transportation businesses improved during fiscal 2008 when compared to fiscal 2007.

Our Ag Business segment generated income from continuing operations before income taxes of $568.3 million for the year ended August 31, 2008 compared to $118.3 million in fiscal 2007, an increase in earnings of $450.0 million (381%). In our first fiscal quarter of 2007, we sold approximately 25% of our investment in CF, a domestic fertilizer manufacturer in which we held a minority interest, for which we received cash of $10.9 million and recorded a gain of $5.3 million. During the first quarter of fiscal 2008, we sold all of our remaining 1,610,396 shares of CF stock for proceeds of $108.3 million and recorded a pretax gain of $91.7 million. As previously discussed, during the first quarter of fiscal 2008, we received the crop nutrients business of Agriliance through a distribution of assets to us which generated $137.5 million in pretax earnings for fiscal 2008, and includes strong demand for fertilizer. Prior to the distribution, we reflected 50% of these earnings through our equity income from our investment in Agriliance. Due to the distribution by Agriliance of the wholesale and some of the retail businesses to us and Land O Lakes, the operating performance remaining within the Agriliance operations for fiscal 2008 is primarily their retail business. Our share of the remaining agronomy joint venture earnings, net of allocated internal expenses, was $32.0 million less than in fiscal 2007. Strong demand and increased volumes for grain and oilseed products, much of it driven by increased U.S. ethanol production, contributed to improved performances by our country operations and grain marketing businesses. Our country operations earnings increased $74.4 million, primarily as a result of overall improved product margins, including historically high margins on grain and agronomy transactions. Continued market expansion into Colorado, Kansas and Oklahoma also increased country operations volumes. Our grain marketing operations improved earnings by $183.7 million during fiscal 2008 compared with fiscal 2007, primarily from increased grain volumes and improved margins on those grains, and also included strong earning performances from our joint ventures. Volatility in the grain markets creates opportunities for increased grain margins, and additionally during years 2008 and 2007, increased interest in renewable fuels, and changes in transportation costs, shifted marketing patterns and dynamics for our grain marketing business.

Our Processing segment generated a net loss from continuing operations before income taxes of $5.8 million for the year ended August 31, 2008, compared to income of $53.6 million in fiscal 2007, a decrease in earnings of $59.4 million (111%). Our share of earnings, net of allocated internal expenses, related to US BioEnergy, an ethanol manufacturing company in which we held a minority ownership interest, decreased $96.1 million for fiscal 2008 compared to fiscal 2007. During the fiscal quarter ended August 31, 2008, we recorded an impairment $71.7 million to our investment in VeraSun, as previously discussed. Effective April 1, 2008, US BioEnergy and VeraSun completed a merger, and as a result of our change in ownership interest, we no longer have significant influence, and account for VeraSun, the surviving entity, as an available-for-sale investment. In August 2006, US BioEnergy filed a registration statement with the Securities and Exchange Commission to register shares of common stock for sale in an IPO, and in December 2006, the IPO was completed. The effect of the issuance of additional shares of US BioEnergy was to dilute our ownership interest down from approximately 25% to 21%. Due to US BioEnergy s increase in equity,

we recognized a non-cash net gain of $15.3 million during fiscal 2007 on our investment to reflect our proportionate share of the increase in the underlying equity of US BioEnergy. Our share of earnings from

Ventura Foods, our packaged foods joint venture, net of allocated internal expenses, decreased $15.8 million during fiscal 2008 compared to fiscal 2007, primarily as the result of increased commodity prices reducing margins on the products sold compared to fiscal 2007. Oilseed processing earnings increased $23.5 million during fiscal 2008 compared to fiscal 2007, primarily due to improved margins in our crushing operations, partially offset by slightly reduced margins in our refining operations. Our share of earnings from our wheat milling joint ventures, net of allocated internal expenses, improved by $29.0 million in fiscal 2008 compared to fiscal 2007.

Corporate and Other generated income from continuing operations before income taxes of $12.3 million for the year ended August 31, 2008 compared to $12.2 million in fiscal 2007, an increase in earnings of $0.1 million (1%). This improvement is primarily attributable to our business solutions financial and hedging services.

Net Income. Consolidated net income for the year ended August 31, 2008 was $803.0 million compared to $756.7 million for the year ended August 31, 2007, which represented a $46.3 million (6%) increase.

Revenues. Consolidated revenues of $32.2 billion for the year ended August 31, 2008 compared to $17.2 billion for the year ended August 31, 2007, which represented a $15.0 billion (87%) increase.

Total revenues include other revenues generated primarily within our Ag Business segment and Corporate and Other. Our Ag Business segment s country operations elevators and agri-service centers derive other revenues from activities related to production agriculture, which include grain storage, grain cleaning, fertilizer spreading, crop protection spraying and other services of this nature, and our grain marketing operations receive other revenues at our export terminals from activities related to loading vessels. Corporate and Other derives revenues primarily from our hedging and insurance operations.

Our Energy segment revenues, after elimination of intersegment revenues, of $11.2 billion increased by $3.3 billion (42%) during the year ended August 31, 2008 compared to fiscal 2007. During the years ended August 31, 2008 and 2007, our Energy segment recorded revenues from our Ag Business segment of $322.5 million and $228.9 million, respectively. The net increase in revenues of $3.3 billion is comprised of a net increase of $3.0 billion related to price appreciation, primarily on refined fuels and a $253.7 million net increase in sales volume, primarily on renewable fuels marketing. Refined fuels revenues increased $2.5 billion (46%), of which $2.3 billion was related to a net average selling price increase and $158.3 million was attributable to increased volumes, compared to fiscal 2007. The sales price of refined fuels increased $0.88 per gallon (43%) and volumes increased 2% when comparing fiscal 2008 with fiscal 2007. Higher crude oil prices, strong global demand and limited refining capacity contributed to the increase in refined fuels selling prices. Renewable fuels marketing revenues increased $289.3 million (34%), mostly from a 28% increase in volumes when compared with the same period in the previous year. Propane revenues increased by $148.6 million (25%), of which $199.6 million related to an increase in the net average selling price, and were partially offset by $51.0 million related to a decrease in volumes, when compared to fiscal 2007. Propane sales volume decreased 6% in comparison to the same period of the prior year, while the average selling price increased $0.37 per gallon (34%). Propane prices tend to follow the prices of crude oil and natural gas, both of which increased during fiscal 2008 compared to the same period in 2007. Propane prices are also affected by changes in propane demand and domestic inventory levels. The decrease in propane volumes primarily reflects a loss of crop drying season with less moisture in the fall 2007 harvest and reduced demand due to higher prices.

Our Ag Business segment revenues, after elimination of intersegment revenues, of $19.7 billion increased $11.1 billion (130%) during the year ended August 31, 2008 compared to fiscal 2007. Grain revenues in our Ag Business segment totaled $15.0 billion and $7.1 billion during the years ended August 31, 2008 and 2007, respectively. Of the grain revenues increase of $7.8 billion (110%), $3.6 billion is attributable to increased volumes and $4.2 billion is due to increased average grain selling prices during fiscal 2008 compared to fiscal 2007. The average sales price of all grain and oilseed commodities sold reflected an increase of $3.19 per bushel (59%). The

2007 fall harvest produced good yields throughout most of the United States, with the quality of most grains rated as excellent or good. Despite the good harvest, prices for nearly all grain commodities increased because of strong demand, particularly for corn, which is used as the feedstock for most ethanol plants as well as for livestock feed. The average month-end market price per bushel of spring

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wheat, soybeans and corn increased approximately $5.62, $5.32 and $1.67, respectively, when compared to the prices of those same grains for fiscal 2007. Volumes increased 32% during fiscal 2008 compared with the same period of a year ago. Corn, wheat, soybeans and barley reflected the largest volume increases compared to fiscal 2007. In September 2007, we began recording revenues from the distributed crop nutrients business of Agriliance reflecting $2.7 billion for fiscal 2008. Our Ag Business segment revenues of $1.8 billion for products other than grain and wholesale crop nutrients increased by $554.2 million (43%) during fiscal 2008 compared to the same period in fiscal 2007, primarily the result of increased revenues of retail crop nutrients, energy, crop protection, feed, seed and processed sunflower products. Other revenues within our Ag Business segment of $177.4 million during fiscal 2008 increased $47.2 million (36%) compared to fiscal 2007, primarily from grain handling and service revenues.

Our Processing segment revenues, after elimination of intersegment revenues, of $1.3 billion increased $544.5 million (72%) during the year ended August 31, 2008 compared to fiscal 2007. Because our wheat milling and packaged foods operations through non-consolidated joint ventures, sales revenues reported in our Processing segment are entirely from our oilseed processing operations. Higher average sales prices of processed oilseed increased revenues by $259.4 million, while processed soybean volumes increased 8%, accounting for an increase in revenues of $51.9 million. Oilseed refining revenues increased $216.6 million (60%), of which $220.2 million was due to higher average sales prices and were partially offset by $3.6 million due to a less than 1% decrease in sales volume. Oilseed flour revenues increased $8.0 million (49%). The average selling price of processed oilseed increased $124 per ton (69%) and the average selling price of refined oilseed products increased $0.20 per pound (61%) compared to the same period of fiscal 2007. The changes in the average selling price of products are primarily driven by the higher price of soybeans.

Cost of Goods Sold. Consolidated cost of goods sold of $31.0 billion for the year ended August 31, 2008 compared to $16.1 billion for the year ended August 31, 2007, which represents a $14.9 billion (92%) increase.

Our Energy segment cost of goods sold, after elimination of intersegment costs, of $10.7 billion increased by $3.7 billion (52%) during the year ended August 31, 2008 compared to fiscal 2007. The increase in cost of goods sold is primarily due to increased per unit costs for refined fuels and propane products. On a more product-specific basis, the average cost of refined fuels increased $0.93 (47%) per gallon and volumes increased 2% compared to fiscal 2007. We refine approximately 55,000 barrels of crude oil per day at our Laurel, Montana refinery and 80,000 barrels of crude oil per day at NCRA s McPherson, Kansas refinery. The average cost increase is primarily related to higher input costs at our two crude oil refineries and higher average prices on the refined products that we purchased for resale compared to fiscal 2007. The average per unit cost of crude oil purchased for the two refineries increased 67% compared to fiscal 2007. The average cost of propane increased $0.36 (33%) per gallon, while volumes decreased 6% compared to fiscal 2007.

Our Ag Business segment cost of goods sold, after elimination of intersegment costs, of $19.1 billion increased $10.7 billion (128%) during the year ended August 31, 2008 compared to fiscal 2007. Grain cost of goods sold in our Ag Business segment totaled $14.6 billion and $7.0 billion during the years ended August 31, 2008 and 2007, respectively. The cost of grains and oilseed procured through our Ag Business segment increased $7.6 billion (108%) compared to fiscal 2007. This is the result of an increase of $3.06 (57%) in the average cost per bushel along with a 32% net increase in bushels sold as compared to the prior year. Corn, wheat, soybeans and barley reflected the largest volume increases compared to fiscal 2007. Commodity prices on spring wheat, soybeans and corn have increased compared to the prices that were prevalent during the same period in fiscal 2007. In September 2007, we began recording cost of goods sold from the distributed crop nutrients business of Agriliance reflecting $2.5 billion for the year ended August 31, 2008. Our Ag Business segment cost of goods sold, excluding the cost of grains procured through this segment, increased during the year ended August 31, 2008 compared to fiscal 2007, primarily due to higher volumes and price per unit costs for crop nutrients, energy, feed, crop protection, seed and processed sunflower products. The volume increases resulted primarily from acquisitions made and reflected in the reporting periods.

Our Processing segment cost of goods sold, after elimination of intersegment costs, of $1.2 billion, increased $514.5 million (71%) during the year ended August 31, 2008 compared to fiscal 2007, which was primarily due to increased costs of soybeans in addition to volume increases in our soybean crushing operations.

Marketing, General and Administrative. Marketing, general and administrative expenses of $330.0 million for the year ended August 31, 2008 increased by $84.6 million (35%) compared to fiscal 2007. The net increase of $84.6 million includes $35.6 million from our crop nutrients business reflected in our Ag Business segment, which was previously recorded in our equity investment reported earnings of Agriliance. The remaining net change of $49.0 million (20%) includes increased performance-based incentive plan expense, in addition to other employee benefits (primarily medical and pension), general inflation and acquisitions.

Gain on Investments. Gain on investments of $29.2 million for the year ended August 31, 2008, increased by $8.6 million (42%). During fiscal 2007, we sold 540,000 shares of our CF stock, included in our Ag Business segment, for proceeds of $10.9 million, and recorded a pretax gain of $5.3 million, reducing our ownership interest in CF to approximately 2.9%. During fiscal 2008, we sold all of our remaining 1,610,396 shares of CF stock for proceeds of $108.3 million and recorded a pretax gain of $91.7 million. Also during fiscal 2008 included in our Energy and Ag Business segments and Corporate and Other were gains on available-for-sale securities sold of $35 thousand, $9.1 million and $0.9 million, respectively. These gains were partially offset by losses on investments of $72.5 million in our Processing segment. During the fiscal quarter ended August 31, 2008, we recorded an impairment of our investment in VeraSun by $71.7 million ($55.3 million net of taxes), based on VeraSun s market value of $5.76 per share on August 29, 2008 as previously discussed. Also in August 2006, US BioEnergy, now VeraSun, filed a registration statement with the Securities and Exchange Commission to register shares of common stock for sale in an initial public offering (IPO), and in December 2006, the IPO was completed. The effect of the issuance of additional shares of US BioEnergy was to dilute our ownership interest down from approximately 25% to 21%. Due to US BioEnergy s increase in equity, we recognized a non-cash net gain of $15.3 million during fiscal 2007 on our investment to reflect our proportionate share of the increase in the underlying equity of US BioEnergy.

Interest, net. Net interest of $76.5 million for the year ended August 31, 2008 increased $45.4 million (146%) compared to fiscal 2007. Interest expense for the years ended August 31, 2008 and 2007 was $90.4 million and $51.8 million, respectively. Interest income, generated primarily from marketable securities, was $13.9 million and $20.7 million, for the years ended August 31, 2008 and 2007, respectively. The interest expense increase of $38.6 million (74%) primarily relates to an increase in borrowings, which was created by higher working capital needs, in addition to a decrease in capitalized interest of $1.9 million, partially offset by a decrease in the average short-term interest rate. For the years ended August 31, 2008 and 2007, we capitalized interest of $9.8 million and $11.7 million, respectively, primarily related to construction projects in our Energy segment for financing interest on our coker project. The average level of short-term borrowings increased $473.0 million (149%) during the year ended August 31, 2008 compared to fiscal 2007, while the average short-term interest rate decreased 1.70% (30%). Higher commodity prices and increased volumes, primarily within our Ag Business (including working capital needs from our crop nutrients business) and Processing segments, increased those segments interest, net by $35.1 million and $7.2 million, respectively. Also, in October 2007, we entered into a private placement with several insurance companies and banks for additional long-term debt in the amount of $400.0 million with an interest rate of 6.18%, which primarily replaced short-term debt. The net decrease in interest income of $6.8 million (33%), was primarily Corporate and Other relating to a decrease of interest income on our hedging and other services, and was partially offset by increased interest income at NCRA within our Energy segment, which primarily relates to marketable securities.

Equity Income from Investments. Equity income from investments of $150.4 million for the year ended August 31, 2008 increased $40.7 million (37%) compared to fiscal 2007. We record equity income or loss from the investments in which we have an ownership interest of 50% or less and have significant influence, but not control, for our proportionate share of income or loss reported by the entity, without consolidating the revenues and expenses of the entity in our Consolidated Statements of Operations. The net increase in equity income from investments was attributable to improved earnings from investments in our Energy, Ag Business and Processing segments, and Corporate and Other. These improvements included $0.6 million for Energy, $31.2 million for Ag Business,

$8.2 million for Processing, and $0.7 million for Corporate and Other.

Our Ag Business segment generated improved earnings of $31.2 million from equity investments. Our share of equity investment earnings or losses in Agriliance and a Canadian agronomy joint venture decreased

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earnings by $37.0 million, primarily related to the distribution of their wholesale crop nutrient and crop protection products businesses, partially offset by improved margins for their southern retail operations. In September 2007, Agriliance distributed the assets of the crop nutrients business to us, and the assets of the crop protection business to Land O Lakes. Agriliance continues to exist as a 50-50 joint venture and primarily operates an agronomy retail distribution business. We had improvements of $65.9 million from our share of equity investment earnings in our grain marketing joint ventures during the year ended August 31, 2008, compared to fiscal 2007. The improvements in earnings of our grain marketing equity investments are primarily related to increased volumes and improved margins on those volumes at export terminals. Our country operations business reported an aggregate increase in equity investment earnings of $2.3 million from several small equity investments.

Our Processing segment generated improved earnings of $8.2 million from equity investments. Our equity investment earnings from US BioEnergy, prior to the merger with VeraSun, were $6.7 million less during fiscal 2008 compared to fiscal 2007, primarily from reduced margins resulting from higher input costs. Ventura Foods, our vegetable oil-based products and packaged foods joint venture, recorded reduced earnings of $15.6 million, and Horizon Milling, our domestic and Canadian wheat milling joint ventures, along with a small milling investment, recorded combined improved earnings of $30.5 million, net compared to fiscal 2007. Ventura Foods decrease in earnings was primarily due to higher commodity prices resulting in lower margins on the products sold. A shifting demand balance for soybeans for both food and renewable fuels meant addressing supply and price challenges for both CHS and our Ventura Foods joint venture. Horizon Milling s improved results were related to merchandising margins during our year ended August 31, 2008. Typically, results are affected by U.S. dietary habits and although the preference for a low carbohydrate diet appears to have reached the bottom of its cycle, milling capacity, which had been idled over the past few years because of lack of demand for flour products, can easily be put back into production as consumption of flour products increases, which may depress gross margins in the milling industry.

Our Energy segment generated increased equity investment earnings of $0.6 million primarily related to improved margins in an equity investment held by NCRA, and Corporate and Other generated improved earnings of $0.7 million from equity investment earnings, primarily from Cofina Financial, our financial services equity investment, as compared to fiscal 2007.

Minority Interests. Minority interests of $72.2 million for the year ended August 31, 2008 decreased by $71.1 million (50%) compared to fiscal 2007. This net decrease was a result of less profitable operations within our majority-owned subsidiaries compared to fiscal 2007. Substantially all minority interests relate to NCRA, an approximately 74.5% owned subsidiary, which we consolidate in our Energy segment.

Income Taxes. Income tax expense of $71.5 million for the year ended August 31, 2008, compares with $40.7 million for fiscal 2007, resulting in effective tax rates of 8.2% and 5.1%, respectively. During the year ended August 31, 2007, we recognized additional tax benefits of $9.6 million related to export incentive credits. The federal and state statutory rate applied to nonpatronage business activity was 38.9% for the years ended August 31, 2008 and 2007. The income taxes and effective tax rate vary each year based upon profitability and nonpatronage business activity during each of the comparable years.

Comparison of the years ended August 31, 2007 and 2006

General. We recorded income from continuing operations before income taxes of $797.4 million in fiscal 2007 compared to $564.1 million in fiscal 2006, an increase of $233.3 million (41%). These results reflected increased pretax earnings in our Energy, Ag Business and Processing segments, and Corporate and Other.

Our Energy segment generated income from continuing operations before income taxes of $613.3 million for the year ended August 31, 2007 compared to $432.8 million in fiscal 2006. This increase in earnings of $180.5 million (42%)

is primarily attributable to higher margins on refined fuels, which resulted mainly from changes in the refining capacity and global demand, including industry supply shortages. Earnings in our propane business increased significantly, from a $1.5 million loss in fiscal 2006 to income of $9.7 million

during fiscal 2007. Earnings in our renewable fuels marketing, lubricants and transportation businesses also improved during fiscal 2007 when compared to fiscal 2006.

Our Ag Business segment generated income from continuing operations before income taxes of $118.3 million for the year ended August 31, 2007 compared to $91.7 million in fiscal 2006, an increase in earnings of $26.6 million (29%). Strong demand for grain and oilseeds, much of it driven by increased U.S. ethanol production, contributed to improved performances by both our grain marketing and country operations businesses. Our country operations earnings increased $17.0 million, primarily as a result of overall improved product margins, including historically high margins on agronomy, energy, processed sunflower and grain transactions. Continued market expansion into Kansas and Oklahoma also increased country operations volumes. Our grain marketing operations improved earnings by $2.3 million during the year ended August 31, 2007 compared with fiscal 2006, primarily from increased grain volumes. Volatility in the grain markets creates opportunities for increased grain margins, and additionally during 2007, increased interest in renewable fuels, and changes in transportation costs shifted marketing patterns and dynamics for our grain marketing business. Improved earnings generated by Agriliance, an agronomy joint venture in which we hold a 50% interest, resulted in a $2.0 million increase in our share of that joint venture s earnings, net of an impairment of retail assets, a Canadian agronomy joint venture and allocated internal expenses. These improved earnings were attributable to improved margins for wholesale and retail crop nutrient products sold during the spring planting season, partially offset by our share of an impairment of retail assets of $10.2 million. Additionally, in our first fiscal quarter of 2007, we sold approximately 25% of our investment in CF, a domestic fertilizer manufacturer in which we held a minority interest, for which we received cash of $10.9 million and recorded a gain of $5.3 million.

Our Processing segment generated income from continuing operations before income taxes of $53.6 million for the year ended August 31, 2007 compared to $28.5 million in fiscal 2006, an increase in earnings of $25.1 million (88%). Oilseed processing earnings increased $2.2 million during the year ended August 31, 2007 as compared to fiscal 2006. This was primarily the result of improved crushing margins, partially offset by reduced oilseed refining margins. Contributing factors include a 7% increase in volume at our two crushing facilities, but primarily includes significant improvement in oilseed crushing margins, when comparing the year ended August 31, 2007 with fiscal 2006. Our share of earnings from Ventura Foods, our packaged foods joint venture, net of allocated internal expenses, increased by $3.0 million during the year ended August 31, 2007 compared to fiscal 2006, primarily from improved product margins. Our share of earnings from our wheat milling joint ventures, net of allocated internal expenses, reported improved earnings of $0.8 million for fiscal 2007 compared to fiscal 2006. Our share of earnings from US BioEnergy, an ethanol manufacturing company in which we hold a minority ownership interest, net of allocated internal expenses, increased by $3.8 million during fiscal 2007 compared to fiscal 2006. In December 2006, US BioEnergy completed an IPO and the effect of the issuance of additional shares of its stock was to dilute our ownership interest from approximately 25% to 21%. Due to US BioEnergy s increase in equity, we recognized a non-cash net gain of $11.4 million on our investment to reflect our proportionate share of the increase in the underlying equity of US BioEnergy. Subsequent to the IPO, our ownership interest decreased to approximately 19%, and our gain was increased by $3.9 million, to bring the net gain to a total of $15.3 million during fiscal 2007.

Corporate and Other generated income from continuing operations before income taxes of $12.2 million for the year ended August 31, 2007 compared to $11.1 million in fiscal 2006, an increase in earnings of $1.1 million (10%). This improvement is primarily attributable to our business solutions financial and hedging services.

Net Income. Consolidated net income for the year ended August 31, 2007 was $756.7 million compared to $505.4 million for the year ended August 31, 2006, which represented a $251.3 million (50%) increase.

Revenues. Consolidated revenues of $17.2 billion for the year ended August 31, 2007 compared to $14.4 billion for the year ended August 31, 2006, which represented a $2.8 billion (20%) increase.

Total revenues include other revenues generated primarily within our Ag Business segment and Corporate and Other. Our Ag Business segment s country operations elevators and agri-service centers derive other revenues from activities related to production agriculture, which include grain storage, grain cleaning, fertilizer

spreading, crop protection spraying and other services of this nature, and our grain marketing operations receive other revenues at our export terminals from activities related to loading vessels. Corporate and Other derives revenues primarily from our hedging and insurance operations.

Our Energy segment revenues, after elimination of intersegment revenues, of $7.9 billion increased by $704.2 million (10%) during the year ended August 31, 2007 compared to fiscal 2006. During the years ended August 31, 2007 and 2006, our Energy segment recorded revenues from our Ag Business segment of $228.9 million and $242.4 million, respectively. The revenues net increase of $704.2 million is comprised of a net increase of $624.0 million in sales volume and a $80.2 million increase related to a net price appreciation on refined fuels, renewable fuels and propane products. The net change in revenues includes volume increases of $606.0 million from our ethanol marketing venture, which we acquired in April of fiscal 2006. Refined fuels revenues increased $94.5 million (2%), of which $111.2 million was due to increased volumes, partially offset by $16.7 million related to a net average selling price decrease compared to fiscal 2006. Our refined fuels volumes increased 2%, while the sales price of refined fuels decreased, only slightly, or less than $0.01 per gallon, when comparing the year ended August 31, 2007 with fiscal 2006. Lower crude oil prices during fiscal 2007 compared to fiscal 2006 were primarily attributable to the effects of the hurricanes in the United States during the fall of 2005. Production disruptions due to hurricanes during the fall of 2005 along with strong demand contributed to the increases in refined fuels selling prices during fiscal 2006. Propane revenues decreased by $125.5 million (17%), of which $165.1 million was related to decreases in volume, partially offset by $39.6 million related to a net average selling price increase when compared to fiscal 2006. Propane sales volume decreased 22% in comparison to fiscal 2006, while the average selling price of propane increased $0.06 per gallon (6%). Propane prices tend to follow the prices of crude oil and natural gas, both of which decreased during the year ended August 31, 2007 compared to fiscal 2006, and are also affected by changes in propane demand and domestic inventory levels. The decrease in propane volumes reflects a loss of exclusive propane marketing rights at our former supplier s proprietary terminals.

Our Ag Business segment revenues, after elimination of intersegment revenues, of $8.6 billion increased $2.0 billion (30%) during the year ended August 31, 2007 compared to fiscal 2006. Grain revenues in our Ag Business segment totaled $7.1 billion and $5.3 billion during the years ended August 31, 2007 and 2006, respectively. Of the grain revenues increase of $1.8 billion (34%), $1.3 billion is due to increased average grain selling prices and $521.0 million is attributable to increased volumes during the year ended August 31, 2007 compared to fiscal 2006. The average sales price of all grain and oilseed commodities sold reflected an increase of $1.05 per bushel (24%). The 2006 fall harvest produced good yields throughout most of the United States, with the quality of most grains rated as excellent or good. Despite the good harvest, prices for nearly all grain commodities increased because of strong demand, particularly for corn, which is used as the feedstock for most ethanol plants as well as for livestock feed. The average month-end market price per bushel of corn, soybeans and spring wheat increased approximately $1.33, $1.63 and $1.20, respectively, when compared to the prices of those same grains for fiscal 2006. Volumes increased 8% during the year ended August 31, 2007 compared with fiscal 2006. Corn and soybeans had the largest volume increases compared to fiscal 2006, followed by barley and wheat. Our Ag Business segment non-grain product revenues of $1.3 billion increased by $196.0 million (18%) during the year ended August 31, 2007 compared to fiscal 2006, primarily the result of increased revenues of crop nutrients, energy, seed, crop protection, feed and processed sunflower products. Other revenues within our Ag Business segment of $130.2 million during the year ended August 31, 2007 decreased $4.7 million (4%) compared to fiscal 2006 and is primarily attributable to reduced storage and handling revenues.

Our Processing segment revenues, after elimination of intersegment revenues, of $754.4 million increased $140.3 million (23%) during the year ended August 31, 2007 compared to fiscal 2006. Because our wheat milling, renewable fuels and packaged foods operations are operated through non-consolidated joint ventures, revenues reported in our Processing segment are entirely from our oilseed processing operations. Processed soybean volumes increased 8%, accounting for an increase in revenues of $27.8 million, and a higher average sales price of processed

oilseed and other revenues increased total revenues for this segment by $42.4 million. Oilseed refining revenues increased $66.6 million (23%), of which $50.4 million was due to a higher average sales price and $16.1 million was due to a net increase in sales volume. The average selling price of processed

oilseed increased $22 per ton and the average selling price of refined oilseed products increased $0.05 per pound compared to 2006. Increased processed soyflour sales of $3.5 million (27%) accounts for the remaining increase in revenues. The changes in the average selling price of products are primarily driven by the higher price of soybeans.

Cost of Goods Sold. Consolidated cost of goods sold of $16.1 billion for the year ended August 31, 2007 compared to $13.5 billion for the year ended August 31, 2006, which represents a $2.6 billion (19%) increase.

Our Energy segment cost of goods sold, after elimination of intersegment costs, of $7.0 billion increased by $473.2 million (7%) during the year ended August 31, 2007 compared to fiscal 2006. This net change includes increased cost of goods sold of $624.5 million related to changes in volume from our ethanol marketing venture, which we acquired in April of fiscal 2006. The remaining change in cost of goods sold is primarily due to decreased volumes of propane, partially offset by increased net average per gallon costs of propane. The propane volumes decreased 22%, while the average cost of propane increased $0.05 (5%) compared to the year ended August 31, 2006. The average cost of refined fuels decreased by $0.02 (1%) per gallon, while volumes increased 2% compared to the year ended August 31, 2006. We process approximately 55,000 barrels of crude oil per day at our Laurel, Montana refinery and 80,000 barrels of crude oil per day at NCRA s McPherson, Kansas refinery. The average cost decrease on refined fuels is reflective of lower input costs at our two crude oil refineries compared to the year ended August 31, 2006. The average per unit cost of crude oil purchased for the two refineries decreased 4% compared to the year ended August 31, 2006.

Our Ag Business segment cost of goods sold, after elimination of intersegment costs, of $8.4 billion increased $2.0 billion (31%) during the year ended August 31, 2007 compared to fiscal 2006. Grain cost of goods sold in our Ag Business segment totaled $7.0 billion and $5.3 billion during the years ended August 31, 2007 and 2006, respectively. The cost of grains and oilseed procured through our Ag Business segment increased $1.7 billion (34%) compared to the year ended August 31, 2006. This is the result of an 8% increase in bushels sold along with an increase of $1.04 (24%) average cost per bushel as compared to fiscal 2006. Corn and soybeans had the largest volume increase compared to the year ended August 31, 2006 followed by barley and wheat. Commodity prices on corn, spring wheat and soybeans have increased compared to the prices that were prevalent during the same period in fiscal 2006. Our Ag Business segment cost of goods sold, excluding the cost of grains procured through this segment, increased during the year ended August 31, 2007 compared to fiscal 2006, primarily due to higher volumes and price per unit costs of crop nutrients, energy, seed, crop protection, feed and processed sunflower products. The higher volumes are primarily related to acquisitions.

Our Processing segment cost of goods sold, after elimination of intersegment costs, of $726.1 million increased $137.8 million (23%) compared to the year ended August 31, 2006, which was primarily due to increased costs of soybeans in addition to increased volumes.

Marketing, General and Administrative. Marketing, general and administrative expenses of $245.4 million for the year ended August 31, 2007 increased by $14.1 million (6%) compared to fiscal 2006. The net increase of $14.1 million is primarily due to an increase of $1.0 million for educational funding and increased performance-based incentive plan expense, in addition to other employee benefits and general inflation, partially offset by a $3.0 million net increase in gains on disposals of fixed assets.

Gain on Investments. During our first fiscal quarter in 2007, we sold approximately 25% of our investment in CF. We received cash proceeds of $10.9 million and recorded a gain of $5.3 million, which is reflected within the results reported for our Ag Business segment. In December 2006, US BioEnergy completed an IPO and the effect of the issuance of additional shares of its stock was to dilute our ownership interest from approximately 25% to 21%. Due to US BioEnergy s increase in equity, we recognized a non-cash net gain of $11.4 million on our investment to reflect our proportionate share of the increase in the underlying equity of US BioEnergy. Subsequent to the IPO, our ownership

interest decreased to approximately 19% and our gain was increased by $3.9 million, which brings the net gain to a total of $15.3 million. This net gain is reflected in our Processing segment.

Interest, net. Net interest of $31.1 million for the year ended August 31, 2007 decreased $10.2 million (25%) compared to fiscal 2006. Interest expense for the years ended August 31, 2007 and 2006 was $51.8 million and $50.6 million, respectively. Interest income, generated primarily from marketable securities, was $20.7 million and $9.3 million, for the years ended August 31, 2007 and 2006, respectively. The interest expense increase of $1.2 million (2%) includes an increase in short-term borrowings, primarily created by higher working capital needs, and an increase in the average short-term interest rate, partially offset by an increase in capitalized interest of $7.1 million. For the years ended August 31, 2007 and 2006, we capitalized interest of $11.7 million and $4.6 million, respectively, primarily related to construction projects in our Energy segment. The increase in capitalized interest primarily relates to financing interest on our coker project mostly during 2007, partially offset by the final stages of the ultra-low sulfur upgrades at our energy refineries during fiscal 2006. The average level of short-term borrowings increased $263.6 million during the year ended August 31, 2007 compared to fiscal 2006, and the average short-term interest rate increased 0.69%. The interest income increase of $11.4 million (124%) was primarily at NCRA within our Energy segment and relates to marketable securities and in Corporate and Other which relates to an increase in interest income on our hedging services.

Equity Income from Investments. Equity income from investments of $109.7 million for the year ended August 31, 2007 increased $25.5 million (30%) compared to fiscal 2006. We record equity income or loss primarily from the investments in which we have an ownership interest of 50% or less and have significant influence, but not control, for our proportionate share of income or loss reported by the entity, without consolidating the revenues and expenses of the entity in our Consolidated Statements of Operations. The net increase in equity income from investments was attributable to improved earnings from investments in all of our business segments and Corporate and Other. These improvements included $0.6 million for Energy, $10.9 million for Ag Business, $13.0 million for Processing, and $1.0 million for Corporate and Other.

Our Ag Business segment generated improved earnings of $10.9 million from equity investments. Our share of equity investment earnings or losses in Agriliance increased earnings by $3.0 million and is primarily attributable to improved margins for wholesale and retail crop nutrient products sold during the spring planting season, partially offset by an impairment related to repositioning of their retail operations. Our investment in a Canadian agronomy joint venture contributed an increase in earnings of $0.4 million. During the first fiscal quarter of 2007, we invested $22.2 million for an equity position in a Brazil-based grain handling and merchandising company, Multigrain S.A., which was owned jointly (50/50) with Multigrain Comercia, an agricultural commodities business headquartered in Sao Paulo, Brazil. We recorded income of $4.8 million during the year ended August 31, 2007 for that equity investment. This income for Multigrain S.A. includes a gain of $2.1 million on a sale of 25% of its investment during the fourth fiscal quarter of 2007. At the same time, Mitsui Corporation invested in this business so that as of August 31, 2007, our ownership interest in Multigrain S.A. was 37.5%. Our wheat exporting investment in United Harvest contributed improved earnings of $0.2 million, and our equity income from our investment in TEMCO, a joint venture which exports primarily corn and soybeans, also reflected $2.7 million of improved earnings. Our country operations business reported an aggregate decrease in equity investment earnings of $0.2 million for several small equity investments.

Our Processing segment generated improved earnings of $13.0 million from equity investments. During fiscal 2007 and 2006, we invested $115.4 million in US BioEnergy, an ethanol manufacturing company, and recorded improved earnings of $9.3 million during the year ended August 31, 2007 compared to fiscal 2006, primarily from operating margins as US BioEnergy had additional plants put into production compared to fiscal 2006. Ventura Foods, our vegetable oil-based products and packaged foods joint venture, recorded improved earnings of $2.3 million, and Horizon Milling, our domestic and Canadian wheat milling joint ventures, recorded improved earnings of $1.1 million compared to fiscal 2006. Ventura Foods improved results were primarily due to improved product margins. A shifting demand balance for soybeans for both food and renewable fuels meant addressing supply and price challenges for both CHS and our Ventura Foods joint venture. Horizon Milling s results are primarily affected by U.S. dietary habits.

Although the preference for a low carbohydrate diet appears to have reached the bottom of its cycle, milling capacity, which had been idled over the past few years because of lack of demand for flour products, can easily be put back into

production as consumption of flour products increase, which may continue to depress gross margins in the milling industry.

Our Energy segment generated increased equity investment earnings of $0.6 million primarily related to improved margins in an equity investment held by NCRA, and Corporate and Other generated improved earnings of $1.0 million from equity investment earnings, primarily from Cofina Financial, our financial services equity investment, as compared to fiscal 2006.

Minority Interests. Minority interests of $143.2 million for the year ended August 31, 2007 increased by $52.1 million (57%) compared to fiscal 2006. This net increase was a result of more profitable operations within our majority-owned subsidiaries compared to fiscal 2006. Substantially all minority interests relate to NCRA, an approximately 74.5% owned subsidiary, which we consolidate in our Energy segment.

Income Taxes. Income tax expense, excluding discontinued operations, of $40.7 million for the year ended August 31, 2007 compares with $59.4 million for fiscal 2006, resulting in effective tax rates of 5.1% and 10.5%, respectively. During the year ended August 31, 2007, we recognized additional tax benefits of $9.6 million upon the receipt of a tax refund from the Internal Revenue Service related to export incentive credits. The federal and state statutory rate applied to nonpatronage business activity was 38.9% for the years ended August 31, 2007 and 2006. The income taxes and effective tax rate vary each year based upon profitability and nonpatronage business activity during each of the comparable years.

Discontinued Operations. During the year ended August, 31, 2005, we reclassified our Mexican foods operations, previously reported in Corporate and Other, along with gains and losses recognized on sales of assets, and impairments on assets for sale, as discontinued operations that were sold or have met required criteria for such classification. During fiscal 2006, we sold or disposed of the remaining Mexican foods assets and recorded $1.0 million income ($0.6 million in income, net of taxes).

Liquidity and Capital Resources

On August 31, 2008, we had working capital, defined as current assets less current liabilities, of $1,738.6 million and a current ratio, defined as current assets divided by current liabilities, of 1.4 to 1.0 compared to working capital of $821.9 million and a current ratio of 1.3 to 1.0 on August 31, 2007. During the year ended August 31, 2008, increases in working capital included the impact of the cash received from additional long-term borrowings of $600.0 million and the distribution of crop nutrients net assets from Agriliance, our agronomy joint venture, as previously discussed.

On August 31, 2008, our committed lines of credit consisted of a five-year revolving facility in the amount of $1.3 billion which expires in May 2011 and a 364-day revolving facility in the amount of $500.0 million which expires in February 2009. These credit facilities are established with a syndication of domestic and international banks, and our inventories and receivables financed with them are highly liquid. On August 31, 2008, we had $75.0 million outstanding on our five-year revolver compared with $600.0 million outstanding on August 31, 2007. On August 31, 2008, we had no amount outstanding on our 364-day revolver. In addition, we have two commercial paper programs totaling $125.0 million with banks participating in our five-year revolver. On August 31, 2008, we had no commercial paper outstanding compared with $51.9 million on August 31, 2007. Late summer and early fall are typically our lowest points of seasonal borrowings, however, due to the appreciation in commodity prices, as further discussed in Cash Flows from Operations , our borrowings were much higher at the end of fiscal 2007 and during the year ended August 31, 2008, when compared to prior years. With our current available capacity on our committed lines of credit, we believe that we have adequate liquidity to cover any increase in net operating assets and liabilities and expected capital expenditures in the foreseeable future.

Cash Flows from Operations

Cash flows from operations are generally affected by commodity prices and the seasonality of our businesses. These commodity prices are affected by a wide range of factors beyond our control, including weather, crop conditions, drought, the availability and the adequacy of supply and transportation, government

regulations and policies, world events, and general political and economic conditions. These factors are described in the cautionary statement in the Risk Factors section of this prospectus, and may affect net operating assets and liabilities, and liquidity.

Cash flows provided by operating activities were $805.8 million, $407.3 million and $497.8 million for the years ended August 31, 2008, 2007 and 2006, respectively. The fluctuation in cash flows from operations between fiscal 2008 and 2007 was primarily the result of a smaller net increase in operating assets and liabilities during fiscal 2008 when compared to fiscal 2007. Commodity prices have been very volatile during the past two fiscal years, and higher prices affect inventory and receivable balances which consume cash until inventories are sold and receivables are collected. In addition, we hedge most of our grain positions with futures contracts on regulated exchanges, and volatile prices create margin calls, reflected in other current assets, which are a use of cash. The fluctuations in cash flows from operations between fiscal 2007 and 2006 was primarily the result of an increase in operating assets and liabilities partially offset by greater net income during fiscal 2007.

Our operating activities provided net cash of $805.8 million during the year ended August 31, 2008. Net income of $803.0 million and net non-cash expenses and cash distributions from equity investments of $230.0 million were partially offset by an increase in net operating assets and liabilities of $227.2 million. The primary components of net non-cash expenses and cash distributions from equity investments included depreciation and amortization, including major repair costs, of $210.4 million, minority interests of $72.2 million and deferred taxes of $26.0 million, which were partially offset by income from equity investments, net of distributions, of $40.4 million and a pretax net gain on investments of $29.2 million. Gains on investments were previously discussed in Results of Operations , and primarily include the gain on the sale of all of our shares of CF common stock, partially off set by an impairment of our VeraSun investment. The increase in net operating assets and liabilities was caused primarily by increased commodity prices reflected in increased inventories, receivables, derivative assets and hedging deposits included in other current assets, partially offset by an increase in accounts payable and accrued expenses, customer advance payments and derivative liabilities on August 31, 2008, when compared to August 31, 2007. On August 31, 2008, the per bushel market prices of our three primary grain commodities, corn, soybeans and spring wheat, increased by $2.44 (75%), $4.64 (53%) and $1.69 (24%), respectively, when compared to the prices on August 31, 2007. The effect of increased grain prices on our operating assets and liabilities was partially offset by a decrease in our Ag Business segment grain inventories of 44.7 million bushels (30%) when comparing inventories at August 31, 2008 and 2007. In general, crude oil market prices increased $41.42 (56%) per barrel on August 31, 2008, when compared to August 31, 2007. In addition, on August 31, 2008, fertilizer commodity prices affecting our wholesale crop nutrients and country operations retail businesses generally had increases between 73% and 248%, depending on the product, compared to prices on August 31, 2007.

Our operating activities provided net cash of $407.3 million during the year ended August 31, 2007. Net income of $756.7 million and net non-cash expenses and cash distributions from equity investments of $288.4 million were partially offset by an increase in net operating assets and liabilities of $637.8 million. The primary components of net non-cash expenses and cash distributions from equity investments included minority interests of $143.2 million, depreciation and amortization, including major repair costs, of $163.8 million and deferred taxes of $50.9 million, which were partially offset by income from equity investments, net of distributions, of $43.0 million and a pretax gain on investments of $20.6 million. The increase in net operating assets and liabilities was caused primarily by increased commodity prices reflected in increased inventories, receivables, derivative assets and hedging deposits included in other current assets, partially offset by an increase in accounts payable and accrued expenses, derivative liabilities and customer advances on August 31, 2007, when compared to August 31, 2006. On August 31, 2007, the per bushel market prices of our three primary grain commodities, soybeans, spring wheat and corn, increased by $3.26 (60%), $2.37 (52%) and $0.92 (40%), respectively, when compared to the prices on August 31, 2006. In addition, grain inventories in our Ag Business segment increased by 39.6 million bushels (36%) when comparing inventories at August 31, 2007 and 2006. In general, crude oil prices increased $3.78 (5%) per barrel on August 31, 2007, when

compared to August 31, 2006.

Our operating activities provided net cash of $497.8 million during the year ended August 31, 2006. Net income of $505.4 million and net non-cash expenses and cash distributions from equity investments of $285.2 million were partially offset by an increase in net operating assets and liabilities of $292.8 million. The primary components of net non-cash expenses and cash distributions from equity investments included depreciation and amortization, including major repair costs, of $141.5 million, minority interests of $91.1 million and deferred taxes of $88.3 million, which were partially offset by income from equity investments, net of distributions, of $25.9 million. The increase in net operating assets and liabilities was caused primarily by an increase in inventories and a decrease in payables on August 31, 2006, when compared to August 31, 2005. The increase in inventories was primarily due to an increase in grain prices and grain inventory quantities in our Ag Business segment. On August 31, 2006, the per bushel market prices of two of our primary grain commodities, spring wheat and corn, increased by $1.04 (29%) and $0.31 (15%), respectively, and soybeans, another high volume commodity, saw a decline in price of $0.45 (8%) when compared to August 31, 2005. Grain inventories in our Ag Business segment increased by 16.3 million bushels (18%) when comparing inventories at August 31, 2006 and 2005. In addition, energy inventories at NCRA increased by 763 thousand barrels (26%) on August 31, 2006 when compared to August 31, 2005, and were also valued using prices that were 46% higher than the previous year. The decrease in accounts payable is related to NCRA, and is primarily due to a decrease in payables for crude oil purchased. The decrease in crude oil payables was related to the planned major maintenance turnaround, during which time the refinery was shut down and inventory was not used for production. The turnaround was completed by the end of August 2006.

Crude oil prices have been volatile and are expected to be volatile in the foreseeable future, but related inventories and receivables are turned in a relatively short period, thus somewhat mitigating the effect on operating assets and liabilities. Grain prices were volatile during fiscal 2008 and 2007, and are influenced significantly by global projections of grain stocks available until the next harvest, which has been affected by demand from the ethanol industry in recent years. Although grain prices have declined subsequent to August 31, 2008, we anticipate continued price volatility but within a narrower band of real values.

Cash Flows from Investing Activities

For the years ended August 31, 2008, 2007 and 2006, the net cash flows used in our investing activities totaled $663.7 million, $530.0 million and $308.2 million, respectively.

The acquisition of property, plant and equipment comprised the primary use of cash totaling $318.6 million, $373.3 million and $235.0 million for the years ended August 31, 2008, 2007 and 2006, respectively. Included in our total acquisitions of property, plant and equipment for those same three years were capital expenditures for the installation of a coker unit at our Laurel, Montana refinery, along with refinery improvements, in the amounts of $132.5 million, $221.5 million and $62.8 million, respectively. The coker project was completed in fiscal 2008, and allows us to extract a greater volume of high value gasoline and diesel fuel from a barrel of crude oil and less relatively low value asphalt. Included in our total acquisitions of property, plant and equipment for year ended August 31, 2006, were $71.5 million of capital expenditures primarily related to the EPA low sulfur fuel regulations at our Laurel, Montana refinery and NCRA s McPherson, Kansas refinery.

For the year ending August 31, 2009, we expect to spend approximately $577.8 million for the acquisition of property, plant and equipment. The EPA has passed a regulation that requires the reduction of the benzene level in gasoline to be less than 0.62% volume by January 1, 2011. As a result of this regulation, our refineries will incur capital expenditures to reduce the current gasoline benzene levels to the regulated levels. We anticipate the combined capital expenditures for the Laurel and NCRA refineries to be approximately $130 million, for which $73 million is included in budgeted capital expenditures for fiscal 2009.

Expenditures for major repairs related to our refinery turnarounds were $21.7 million, $34.7 million and $42.9 million during the years ended August 31, 2008, 2007 and 2006, respectively.

In October 2003, we and NCRA reached agreements with the EPA and the State of Montana s Department of Environmental Quality and the State of Kansas Department of Health and Environment regarding the terms of settlements with respect to reducing air emissions at our Laurel, Montana and NCRA s

McPherson, Kansas refineries. These settlements are part of a series of similar settlements that the EPA has negotiated with major refiners under the EPA s Petroleum Refinery Initiative. The settlements take the form of consent decrees filed with the United States District Court for the District of Montana (Billings Division) and the United States District Court for the District of Kansas. Each consent decree details potential capital improvements, supplemental environmental projects and operational changes that we and NCRA have agreed to implement at the relevant refinery over several years. The consent decrees also required us, and NCRA, to pay approximately $0.5 million in aggregate civil cash penalties. As of August 31, 2008, the aggregate capital expenditures for us and NCRA related to these settlements was approximately $33 million, and we anticipate spending approximately an additional $4 million over the next few years. We do not believe that the settlements will have a material adverse effect on us, or NCRA.

Investments made during the years ended August 31, 2008, 2007 and 2006 totaled $370.2 million, $95.8 million and $73.0 million, respectively.

As previously discussed, in September 2007, Agriliance distributed primarily its wholesale crop nutrients and crop protection assets to us and Land O Lakes, respectively, and continues to operate primarily its retail distribution business until further repositioning of that business occurs. During the year ended August 31, 2008, we made a $13.0 million net cash payment to Land O Lakes in order to maintain equal capital accounts in Agriliance, as previously discussed, and Land O Lakes paid us $8.3 million for additional assets distributed to them by Agriliance related to joint venture ownership interests. In addition, during the year ended August 31, 2008, our net contribution to Agriliance was $235.0 million which supported their working capital requirements, with Land O Lakes making equal contributions to Agriliance, primarily for crop nutrient and crop protection product net trade payables that were not assumed by us or Land O Lakes upon the distribution of the crop nutrients and crop protection assets, as well as for Agriliance s ongoing retail operations.

Also during the year ended August 31, 2008, we invested an additional $20.0 million in Ventura Foods, included in our Processing segment.

During the year ended August 31, 2007, we invested $22.2 million in Multigrain AG (Multigrain) for a 37.5% equity position in a Brazil-based grain handling and merchandising company, Multigrain S.A., an agricultural commodities business headquartered in Sao Paulo, Brazil. The venture, included in our Ag Business segment, includes grain storage and export facilities and builds on our South American soybean origination. During the year ended August 31, 2008, we increased our equity position through a purchase from an existing equity holder for $10.0 million, and also invested an additional $30.3 million which was used by Multigrain to invest in a joint venture that acquired production farmland and related operations. On August 31, 2008, we had a 40.0% ownership interest in Multigrain. During the first quarter of fiscal 2009, we and Mitsui & Co., Ltd. (Mitsui) invested an additional $200.0 million for Multigrain s increased capital needs resulting from expansion of their operations. Our share of the $200.0 million investment was $76.3 million, resulting in our current ownership interest of 39.35%, equal to Mitsui s ownership interest. During fiscal 2008 and 2007, our grain marketing operations have also added to our global presence by opening offices in Geneva, Switzerland; Hong Kong; Kiev, Ukraine; and Shanghai, China, and continue to explore other opportunities to establish a presence in emerging grain origination and export markets.

During the year ended August 31, 2007, we invested $15.6 million in Horizon Milling G.P. (24% CHS ownership), a joint venture included in our Processing segment, that acquired the Canadian grain-based foodservice and industrial businesses of Smucker Foods of Canada, whose operations include flour milling and dry baking mixing facilities in Canada. During the year ended August 31, 2008, we invested an additional $1.9 million in Horizon Milling G.P.

We purchased $70.0 million of common stock in US BioEnergy, an ethanol production company, during the year ended August 31, 2006. During the years ended August 31, 2008 and 2007, we made additional investments of $6.5 million and $45.4 million, respectively. Through March 31, 2008, we were recognizing our share of the earnings

of US BioEnergy in our Processing segment, using the equity method of accounting. Effective April 1, 2008, US BioEnergy and VeraSun completed a merger, and our current ownership interest in the combined entity was reduced to approximately 8%, compared to an approximate 20% interest in US BioEnergy prior to the merger. As part of the merger transaction, our shares held in US BioEnergy were

converted to shares held in the surviving company, VeraSun, at a ratio of 0.810 per US BioEnergy share. As a result of our change in ownership interest we no longer have significant influence, and account for VeraSun as an available-for-sale investment. Due to the continued decline of the ethanol industry and other considerations, we determined that an impairment of our VeraSun investment was necessary, and as a result, based on VeraSun s market value of $5.76 per share on August 29, 2008, an impairment charge of $71.7 million ($55.3 million net of taxes) was recorded during the fourth quarter of our year ended August 31, 2008. Subsequent to August 31, 2008, the market value of VeraSun s stock price continued to decline, and VeraSun filed for voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code on October 31, 2008. We will be evaluating an additional impairment during our first quarter of fiscal 2009.

For the years ended August 31, 2008, 2007 and 2006, changes in notes receivable resulted in a decrease in cash flows of $67.1 million, a decrease in cash flows of $29.3 million and an increase in cash flows of $21.0 million, respectively. For the year ended August 31, 2008, $46.0 million of the decrease in cash flows resulted from a note receivable from Cofina Financial, and the balance was primarily from related party notes receivable at NCRA from its minority owners, Growmark, Inc. and MFA Oil Company. For the years ended August 31, 2007 and 2006, the changes in notes receivable were primarily from related party notes receivable at NCRA.

Cash acquisitions of businesses totaled $47.0 million and $15.1 million during the years ended August 31, 2008 and 2007, respectively. In fiscal 2008, we purchased a soy-based food ingredients business included in our Processing segment and an energy and convenience store business included in our Energy segment. In addition, we acquired and paid for a distillers dried grain business included in our Ag Business segment during fiscal 2008 and 2007.

Various other cash acquisitions of intangible assets totaled $3.4 million, $9.1 million and $2.9 million during the years ended August 31, 2008, 2007 and 2006, respectively.

Partially offsetting our cash outlays for investing activities during the years ended August 31, 2008 and 2007, were proceeds from the sale of investments of $122.1 million and $10.9 million, respectively, which were previously discussed in Results of Operations , and primarily include proceeds from the sale of all of our shares of CF common stock. Also partially offsetting cash usages for the years ended August 31, 2008, 2007 and 2006, were investments redeemed totaling $43.0 million, $4.9 million and $7.3 million, respectively, and proceeds from the disposition of property, plant and equipment of $9.3 million, $13.5 million and $13.9 million, respectively.

Cash Flows from Financing Activities

We finance our working capital needs through short-term lines of credit with a syndication of domestic and international banks. In May 2006, we renewed and expanded our committed lines of revolving credit to include a five-year revolver in the amount of $1.1 billion, with the ability to expand the facility by an additional $200.0 million. In October 2007, we expanded that facility, receiving additional commitments in the amount of $200.0 million from certain lenders under the agreement. The additional commitments increased the total borrowing capacity to $1.3 billion on the facility. In February 2008, we increased our short-term borrowing capacity by establishing a $500.0 million committed line of credit with a syndication of banks consisting of a 364-day revolver. In addition to these lines of credit, we have a committed revolving credit facility dedicated to NCRA, with a syndication of banks in the amount of $15.0 million. In November 2007, the line of credit dedicated to NCRA was renewed for an additional year, with another renewal planned for December 2008. We also have a committed revolving line of credit dedicated to Provista, which expires in November 2009, in the amount of $25.0 million. During the year ended August 31, 2008, our wholly-owned subsidiary, CHS Europe S.A., entered into uncommitted lines of credit to finance its normal trade grain transactions, which are collateralized by $31.2 million of inventories and receivables as of August 31, 2008. On August 31, 2008 and 2007, we had total short-term indebtedness outstanding on these various facilities and other miscellaneous short-term notes payable totaling $106.2 million and $620.7 million, respectively, with interest rates

ranging from 2.43% to 3.74%. Proceeds from our long-term borrowings totaling $600.0 million during the year ended August 31, 2008, were used to pay down our five-year revolver and are explained in further detail below.

During the year ended August 31, 2007, we instituted two commercial paper programs, totaling up to $125.0 million, with two banks participating in our five-year revolving credit facility. Terms of our five-year revolving credit facility allow a maximum usage of commercial paper of $200.0 million at any point in time. The commercial paper programs do not increase our committed borrowing capacity in that we are required to have at least an equal amount of undrawn capacity available on our five-year revolving facility as to the amount of commercial paper issued. On August 31, 2008, we had no commercial paper outstanding, and on August 31, 2007, we had $51.9 million outstanding.

We typically finance our long-term capital needs, primarily for the acquisition of property, plant and equipment, with long-term agreements with various insurance companies and banks. In June 1998, we established a long-term credit agreement through cooperative banks. This facility committed $200.0 million of long-term borrowing capacity to us, with repayments through fiscal 2009. The amount outstanding on this credit facility was $49.2 million and $75.4 million on August 31, 2008 and 2007, respectively. Interest rates on August 31, 2008 ranged from 3.96% to 7.13%. Repayments of $26.2 million, $23.0 million and $16.4 million were made on this facility during the three years ended August 31, 2008, 2007 and 2006, respectively.

Also in June 1998, we completed a private placement offering with several insurance companies for long-term debt in the amount of $225.0 million with an interest rate of 6.81%. Repayments are due in equal annual installments of $37.5 million each in the years 2008 through 2013. During the year ended August 31, 2008, repayments totaled $37.5 million.

In January 2001, we entered into a note purchase and private shelf agreement with Prudential Insurance Company. The long-term note in the amount of $25.0 million has an interest rate of 7.9% and is due in equal annual installments of approximately $3.6 million, in the years 2005 through 2011. A subsequent note for $55.0 million was issued in March 2001, related to the private shelf facility. The $55.0 million note has an interest rate of 7.43% and is due in equal annual installments of approximately $7.9 million, in the years 2005 through 2011. During each of the years ended August 31, 2008, 2007 and 2006, repayments on these notes totaled $11.4 million.

In October 2002, we completed a private placement with several insurance companies for long-term debt in the amount of $175.0 million, which was layered into two series. The first series of $115.0 million has an interest rate of 4.96% and is due in equal semi-annual installments of approximately $8.8 million during the years 2007 through 2013. The second series of $60.0 million has an interest rate of 5.60% and is due in equal semi-annual installments of approximately $4.6 million during years 2012 through 2018. Repayments of $17.7 million were made on the first series notes during each of the years ended August 31, 2008 and 2007.

In March 2004, we entered into a note purchase and private shelf agreement with Prudential Capital Group, and in April 2004, we borrowed $30.0 million under this arrangement. One long-term note in the amount of $15.0 million has an interest rate of 4.08% and is due in full at the end of the six-year term in 2010. Another long-term note in the amount of $15.0 million has an interest rate of 4.39% and is due in full at the end of the seven-year term in 2011. In April 2007, we amended our Note Purchase and Private Shelf Agreement with Prudential Investment Management, Inc. and several other participating insurance companies to expand the uncommitted facility from $70.0 million to $150.0 million. We borrowed $50.0 million under the shelf arrangement in February 2008, for which the aggregate long-term notes have an interest rate of 5.78% and are due in equal annual installments of $10.0 million during the years 2014 through 2018.

In September 2004, we entered into a private placement with several insurance companies for long-term debt in the amount of $125.0 million with an interest rate of 5.25%. The debt is due in equal annual installments of $25.0 million during years 2011 through 2015.

In October 2007, we entered into a private placement with several insurance companies and banks for long-term debt in the amount of $400.0 million with an interest rate of 6.18%. Repayments are due in equal annual installments of $80.0 million during the years 2013 through 2017.

In December 2007, we established a ten-year long-term credit agreement through a syndication of cooperative banks in the amount of $150.0 million, with an interest rate of 5.59%. Repayments are due in equal semi-annual installments of $15.0 million each, starting in June 2013 through December 2018.

Through NCRA, we had revolving term loans outstanding of $0.5 million and $3.0 million for the years ended August 31, 2008 and 2007, respectively. The interest rate on August 31, 2008 was 6.48%. Repayments of $2.5 million, $3.0 million and $3.0 million were made during the three years ended August 31, 2008, 2007 and 2006, respectively.

On August 31, 2008, we had total long-term debt outstanding of $1,194.9 million, of which $199.7 million was bank financing, $966.4 million was private placement debt and $28.8 million was industrial revenue bonds and other notes and contracts payable. On August 31, 2007, we had long-term debt outstanding of $688.3 million. Our long-term debt is unsecured except for other notes and contracts in the amount of $11.6 million; however, restrictive covenants under various agreements have requirements for maintenance of minimum working capital levels and other financial ratios. In addition, NCRA s term loan of $0.5 million is collateralized by NCRA s investment in CoBank, ACB. We were in compliance with all debt covenants and restrictions as of August 31, 2008. The aggregate amount of long-term debt payable as of August 31, 2008, was as follows (dollars in thousands):

2009	$ 118,636
2010	83,386
2011	112,329
2012	95,102
2013	181,085
Thereafter	604,317
	$ 1,194,855

In December 2006, NCRA entered into an agreement with the City of McPherson, Kansas related to certain of its ultra-low sulfur fuel assets, with a cost of approximately $325.0 million. The City of McPherson issued $325.0 million of Industrial Revenue Bonds (IRBs) which were transferred to NCRA as consideration in a financing agreement between the City of McPherson and NCRA related to the ultra-low sulfur fuel assets. The term of the financing obligation is ten years, at which time NCRA has the option of extending the financing obligation or purchasing the assets for a nominal amount. NCRA has the right at anytime to offset the financing obligation to the City of McPherson against the IRBs. No cash was exchanged in the transaction and none is anticipated to be exchanged in the future. Due to the structure of the agreement, the financing obligation and the IRBs are shown net in our consolidated financial statements. On March 18, 2007, notification was sent to the bond trustees to pay the IRBs down by $324.0 million, at which time the financing obligation to the City of McPherson was offset against the IRBs. The balance of $1.0 million will remain outstanding until its final ten-year maturity.

During the years ended August 31, 2008 and 2007, we borrowed on a long-term basis, $600.0 million and $4.1 million, respectively. There were no long-term borrowings during the year ended August 31, 2006. During the years ended August 31, 2008, 2007 and 2006, we repaid long-term debt of $99.5 million, $60.9 million and $36.7 million, respectively.

Distributions to minority owners for the years ended August 31, 2008, 2007 and 2006 were $63.1 million, $76.8 million and $80.5 million, respectively, and were primarily related to NCRA.

During the years ended August 31, 2008 and 2007, changes in checks and drafts outstanding resulted in an increase in cash flows of $61.1 million and $85.4 million, respectively, and during the year ended August 31, 2006, resulted in a decrease in cash flows of $10.5 million.

In accordance with the bylaws and by action of the Board of Directors, annual net earnings from patronage sources are distributed to consenting patrons following the close of each fiscal year. Patronage refunds are calculated based on amounts using financial statement earnings. The cash portion of the patronage

distribution is determined annually by the Board of Directors, with the balance issued in the form of capital equity certificates. The patronage earnings from the year ended August 31, 2007, were primarily distributed during the second fiscal quarter of the year ended August 31, 2008. The cash portion of this distribution deemed by the Board of Directors to be 35% was $195.0 million. During the years ended August 31, 2007 and 2006, we distributed cash patronage of $133.1 million and $62.5 million, respectively.

Cash patronage for the year ended August 31, 2008, determined by the Board of Directors to be 35% and to be distributed in fiscal 2009, is expected to be approximately $228.2 million and is classified as a current liability on the August 31, 2008 Consolidated Balance Sheets in dividends and equities payable.

Redemptions of capital equity certificates approved by the Board of Directors are divided into two pools, one for non-individuals (primarily member cooperatives) who may participate in an annual pro-rata program for equities held by them and another for individuals who are eligible for equity redemptions at age 70 or upon death. The amount that each non-individual receives under the pro-rata program in any year is determined by multiplying the dollars available for pro-rata redemptions, if any that year, as determined by the Board of Directors, by a fraction, the numerator of which is the amount of patronage certificates eligible for redemption held by them, and the denominator of which is the sum of the patronage certificates eligible for redemption held by all eligible holders of patronage certificates that are not individuals. In addition to the annual pro-rata program, the Board of Directors approved additional equity redemptions to non-individuals in prior years targeting older capital equity certificates which were redeemed in cash in fiscal 2008 and 2007. In accordance with authorization from the Board of Directors, we expect total redemptions related to the year ended August 31, 2008, that will be distributed in fiscal 2009, to be approximately $93.8 million. These expected distributions are classified as a current liability on the Consolidated Balance Sheets.

For the years ended August 31, 2008, 2007 and 2006, we redeemed in cash, equities in accordance with authorization from the Board of Directors, in the amounts of $81.8 million, $70.8 million and $55.9 million, respectively. An additional $46.4 million, $35.9 million and $23.8 million of capital equity certificates were redeemed in fiscal 2008, 2007 and 2006, respectively, by issuance of shares of our Preferred Stock. The amount of equities redeemed with each share of Preferred Stock issued was $25.65, $26.09 and $26.10, which was the closing price per share of the stock on the NASDAQ Global Select Market on February 11, 2008, February 8, 2007 and January 23, 2006, respectively.

Our Preferred Stock is listed on the NASDAQ Global Select Market under the symbol CHSCP. On August 31, 2008, we had 9,047,780 shares of Preferred Stock outstanding with a total redemption value of approximately $226.2 million, excluding accumulated dividends. Our Preferred Stock accumulates dividends at a rate of 8% per year, which are payable quarterly, and is redeemable at our option. At this time, we have no current plan or intent to redeem any Preferred Stock. Dividends paid on our preferred stock during the years ended August 31, 2008, 2007 and 2006, were $16.3 million, $13.1 million and $10.8 million, respectively.

Off Balance Sheet Financing Arrangements

Lease Commitments

We have commitments under operating leases for various refinery, manufacturing and transportation equipment, rail cars, vehicles and office space. Some leases include purchase options at not less than fair market value at the end of the lease term.

Total rental expense for all operating leases, net of rail car mileage credits received from the railroad and sublease income for the years ended August 31, 2008, 2007 and 2006, was $58.3 million, $44.3 million and $38.5 million, respectively.

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Minimum future lease payments required under noncancellable operating leases as of August 31, 2008 were as follows:

	Total (Dollars in millions)
2009	$ 39.6
2010	34.3
2011	25.3
2012	18.8
2013	11.3
Thereafter	23.0
Total minimum future lease payments	$ 152.3

Guarantees

We are a guarantor for lines of credit for related companies. Our bank covenants allow maximum guarantees of $500.0 million, of which $41.7 million was outstanding on August 31, 2008. All outstanding loans with respective creditors are current as of August 31, 2008.

Debt

There is no material off balance sheet debt.

Contractual Obligations

We had certain contractual obligations at August 31, 2008 which require the following payments to be made:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less Than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**More Than 5 Years**
	(Dollars in thousands)				
Notes payable(1)	$ 106,154	$ 106,154			
Long-term debt(1)	1,194,855	118,636	$ 195,715	$ 276,187	$ 604,317
Interest payments(2)	362,228	58,941	118,221	93,268	91,798
Operating leases	152,328	39,652	59,576	30,067	23,033
Purchase obligations(3)	7,534,494	4,357,023	3,095,208	76,190	6,073
Other liabilities(4)	197,481		57,704	59,552	80,225
Total obligations	$ 9,547,540	$ 4,680,406	$ 3,526,424	$ 535,264	$ 805,446

(1) Included on our Consolidated Balance Sheets.

(2) Based on interest rates and long-term debt balances as of August 31, 2008.

(3) Purchase obligations are legally binding and enforceable agreements to purchase goods or services that specify all significant terms, including fixed or minimum quantities; fixed, minimum or variable price provisions; and time of the transactions. Of our total purchase obligations, $1,954.6 million is included in accounts payable and accrued expenses on our Consolidated Balance Sheets.

(4) Other liabilities include the long-term portion of deferred compensation, deferred income taxes and contractual redemptions, and are included on our Consolidated Balance Sheets. Of our total other liabilities on our Consolidated Balance Sheets in the amount of $423.7 million, the timing of the payments of $226.2 million of such liabilities cannot be determined.

Critical Accounting Policies

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires the use of estimates as well as management s judgments and assumptions regarding matters that are subjective, uncertain or involve a high degree of complexity, all of which affect the results of operations and financial condition for the periods presented. We believe that of our significant accounting policies, the following may involve a higher degree of estimates, judgments and complexity.

Allowances for Doubtful Accounts

The allowances for doubtful accounts are maintained at a level considered appropriate by our management based on analyses of credit quality for specific accounts, historical trends of charge-offs and recoveries, and current and projected economic, market and other conditions. Different assumptions, changes in economic circumstances, or the deterioration of the financial condition of our customers, could result in additional provisions to the allowances for doubtful accounts and increased bad debt expense.

Inventory Valuation and Reserves

Grain, processed grains, oilseed and processed oilseeds are stated at net realizable values which approximates market values. All other inventories are stated at the lower of cost or market. The cost of certain energy inventories (wholesale refined products, crude oil and asphalt), are determined on the last-in, first-out (LIFO) method; all other energy inventories are valued on the first-in, first-out (FIFO) and average cost methods. Estimates are used in determining the net realizable value of grain and oilseed and processed grains and oilseeds inventories. These estimates include the measurement of grain in bins and other storage facilities, which use formulas in addition to actual measurements taken to arrive at appropriate quantity. Other determinations made by management include quality of the inventory and estimates for freight. Grain shrink reserves and other reserves that account for spoilage also affect inventory valuations. If estimates regarding the valuation of inventories, or the adequacy of reserves, are less favorable than management s assumptions, then additional reserves or write-downs of inventories may be required.

Derivative Financial Instruments

We enter into exchange-traded commodity futures and options contracts to hedge our exposure to price fluctuations on energy, grain and oilseed transactions to the extent considered practicable for minimizing risk. We do not use derivatives for speculative purposes. Futures and options contracts used for hedging are purchased and sold through regulated commodity exchanges. We also use over-the-counter (OTC) instruments to hedge our exposure on flat price fluctuations. Fluctuations in inventory valuations, however, may not be completely hedged, due in part to the absence of satisfactory hedging facilities for certain commodities and geographical areas and, in part, to our assessment of our exposure from expected price fluctuations. We also manage our risks by entering into fixed-price purchase contracts with pre-approved producers and establishing appropriate limits for individual suppliers. Fixed-price sales contracts are entered into with customers of acceptable creditworthiness, as internally evaluated. The fair value of futures and options contracts is determined primarily from quotes listed on regulated commodity exchanges. Fixed-price purchase and sales contracts are with various counterparties, and the fair values of such contracts are determined from the market price of the underlying product. We are exposed to loss in the event of nonperformance by the counterparties to the contracts and, therefore, contract values are reviewed and adjusted to reflect potential nonperformance. Risk of nonperformance by counterparties includes the inability to perform because of a counterparty s financial condition and also the risk that the counterparty will refuse to perform a contract during periods of price fluctuations where contract

prices are significantly different than the current market prices. Subsequent to our year ended August 31, 2008, the market prices of our input products have significantly decreased, thereby increasing the risk of nonperformance by counterparties.

Pension and Other Postretirement Benefits

Pension and other postretirement benefits costs and obligations are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, health care cost trend rates, benefits earned, interest costs, expected return on plan assets, mortality rates and other factors. In accordance with accounting principles generally accepted in the United States of America, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expenses and the recorded obligations in future periods. While our management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect our pension and other postretirement obligations and future expenses. Based on changes in market conditions subsequent to our year ended August 31, 2008, the expected return on plan assets may not be realized.

Deferred Tax Assets

We assess whether a valuation allowance is necessary to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. While we have considered future taxable income, as well as other factors, in assessing the need for the valuation allowance, in the event that we were to determine that we would not be able to realize all, or part of, our net deferred tax assets in the future, an adjustment to our deferred tax assets would be charged to income in the period such determination was made. We are also significantly impacted by the utilization of loss carryforwards and tax benefits primarily passed to us from NCRA, which are associated with refinery upgrades that enable NCRA to produce ultra-low sulfur fuels. Our net operating loss carryforwards for tax purposes are available to offset future taxable income. If our loss carryforwards are not used, these loss carryforwards will expire.

Long-Lived Assets

Depreciation and amortization of our property, plant and equipment is provided on the straight-line method by charges to operations at rates based upon the expected useful lives of individual or groups of assets. Economic circumstances, or other factors, may cause management s estimates of expected useful lives to differ from actual.

All long-lived assets, including property plant and equipment, goodwill, investments in unconsolidated affiliates and other identifiable intangibles, are evaluated for impairment on the basis of undiscounted cash flows, at least annually for goodwill, and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impaired asset is written down to its estimated fair market value based on the best information available. Estimated fair market value is generally measured by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows and may differ from actual.

Environmental Liabilities

Liabilities, including legal costs, related to remediation of contaminated properties are recognized when the related costs are considered probable and can be reasonably estimated. Estimates of these costs are based on current available facts, existing technology, undiscounted site-specific costs and currently enacted laws and regulations. Recoveries, if any, are recorded in the period in which recovery is considered probable. It is often difficult to estimate the cost of environmental compliance, remediation and potential claims given the uncertainties regarding the interpretation and enforcement of applicable environmental laws and regulations, the extent of environmental contamination and the existence of alternate cleanup methods. All liabilities are monitored and adjusted as new facts or changes in law or technology occur and management believes adequate provisions have been made for environmental liabilities. Changes in facts or circumstances may have an adverse impact on our consolidated financial results.

Revenue Recognition

We record revenue from grain and oilseed sales after the commodity has been delivered to its destination and final weights, grades and settlement prices have been agreed upon. All other sales are recognized upon

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transfer of title, which could occur upon either shipment or receipt by the customer, depending upon the transaction. Amounts billed to a customer as part of a sales transaction related to shipping and handling are included in revenues. Service revenues are recorded only after such services have been rendered and are included in other revenues.

Effect of Inflation and Foreign Currency Transactions

We believe that inflation and foreign currency fluctuations have not had a significant effect on our operations during the three years ended August 31, 2008, since we conduct essentially all of our business in U.S. dollars.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements which defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial assets and liabilities for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FSP 157-2, Effective Date of FASB Statement No. 157. FSP 157-2 delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities that are not remeasured at fair value on a recurring basis until fiscal years beginning after November 15, 2008. Any amounts recognized upon adoption of this rule as a cumulative effect adjustment will be recorded to the opening balance of retained earnings in the year of adoption. We are in the process of evaluating the effect that the adoption of SFAS No. 157 will have on our consolidated results of operations and financial condition.

In October 2008, the FASB issued FSP 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. FSP 157-3 clarifies the definition of fair value by stating that a transaction price is not necessarily indicative of fair value in a market that is not active or in a forced liquidation or distressed sale. Rather, if the company has the ability and intent to hold the asset, the company may use its assumptions about future cash flows and appropriately adjusted discount rates in measuring fair value of the asset. The guidance in FSP 157-3 was effective immediately upon issuance, including prior periods for which financial statements have not been issued. The adoption of FSP 157-3 was not material to our consolidated results of operations, statement of financial position or cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 provides entities with an option to report certain financial assets and liabilities at fair value, with changes in fair value reported in earnings, and requires additional disclosures related to an entity s election to use fair value reporting. It also requires entities to display the fair value of those assets and liabilities for which the entity has elected to use fair value on the face of the balance sheet. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are in the process of evaluating the effect that the adoption of SFAS No. 159 will have on our consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141R). SFAS No. 141R provides companies with principles and requirements on how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree, as well as the recognition and measurement of goodwill acquired in a business combination.
SFAS No. 141R also requires certain disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Acquisition costs associated with the business combination will generally be expensed as incurred. SFAS No. 141R is effective for business combinations occurring in fiscal years beginning after December 15, 2008. Early adoption of SFAS No. 141R is not permitted. The impact on our consolidated financial statements of adopting SFAS No. 141R will depend on the nature, terms and size of business combinations completed after the effective date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin (ARB) No. 51. This statement amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest (minority interest) in a

subsidiary and for the deconsolidation of a subsidiary. Upon its adoption, noncontrolling interests will be classified as equity in our consolidated balance sheets. Income and comprehensive income attributed to the noncontrolling interest will be included in consolidated statements of operations and consolidated statements of equities and comprehensive income. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The provisions of SFAS No. 160 must be applied retrospectively upon adoption. We are in the process of evaluating the impact the adoption of SFAS No. 160 will have on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of SFAS No. 133. SFAS No. 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. We are currently evaluating the impact of the adoption of SFAS No. 161 on our consolidated financial statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk

We are exposed to price fluctuations on energy, fertilizer, grain and oilseed transactions due to fluctuations in the market value of inventories and fixed or partially fixed purchase and sales contracts. Our use of derivative instruments reduces the effects of price volatility, thereby protecting against adverse short-term price movements, while somewhat limiting the benefits of short-term price movements. However, fluctuations in inventory valuations may not be completely hedged, due in part to the absence of satisfactory hedging facilities for certain commodities and geographical areas and, in part, to our assessment of our exposure from expected price fluctuations.

When available, we generally enter into opposite and offsetting positions using futures contracts or options to the extent practical, in order to arrive at a net commodity position within the formal position limits we have established and deemed prudent for each commodity. These contracts are purchased and sold through regulated commodity exchanges. The contracts are economic hedges of price risk, but are not designated or accounted for as hedging instruments for accounting purposes in any of our operations, with the exception of some contracts in prior years included in our Energy segment operations discussed below. These contracts are recorded on our Consolidated Balance Sheets at fair values based on quotes listed on regulated commodity exchanges. Unrealized gains and losses on these contracts are recognized in cost of goods sold in our Consolidated Statements of Operations using market-based prices.

We also manage our risks by entering into fixed-price purchase and sales contracts with pre-approved producers and by establishing appropriate limits for individual suppliers. Fixed-price contracts are entered into with customers of acceptable creditworthiness, as internally evaluated. We are also exposed to loss in the event of nonperformance by the counterparties to the contracts and, therefore, contract values are reviewed and adjusted to reflect potential nonperformance. Risk of nonperformance by counterparties includes the inability to perform because of a counterparty s financial condition and also the risk that the counterparty will refuse to perform a contract during periods of price fluctuations where contract prices are significantly different than the current market prices. Subsequent to our year ended August 31, 2008, the market prices of our input products have significantly decreased, thereby increasing the risk of nonperformance by counterparties. These contracts are recorded on our Consolidated Balance Sheets at fair values based on the market prices of the underlying products listed on regulated commodity exchanges, except for certain fixed-price contracts related to propane in our Energy segment. The propane contracts within our Energy segment meet the normal purchase and sales exemption, and thus are not required to be marked to fair value. Unrealized gains and losses on fixed-price contracts are recognized in cost of goods sold in our Consolidated Statements of Operations using market-based prices.

Changes in the fair values of derivative instruments described above are recognized in cost of goods sold, in our Consolidated Statements of Operations; in the period such changes occur for all operations with the exception of some derivative instruments in prior years included in our Energy segment.

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In our Energy segment, certain financial contracts entered into for the spread between crude oil purchase value and distillate selling price have been designated and accounted for as hedging instruments (cash flow hedges) in prior years. The unrealized gains or losses of these contracts were deferred to accumulated other comprehensive income in the equity section of our Consolidated Balance Sheets for the year ended August 31, 2006, and were included in earnings upon settlement. Settlement dates for these instruments extend through June 2009. On August 31, 2007, these instruments did not qualify for hedge accounting and therefore were recorded in cost of goods sold in our Consolidated Statements of Operations. On August 31, 2006, these contracts had a gain of $2.8 million, net of taxes, recorded in accumulated other comprehensive income, which was then recorded in earnings during fiscal 2007, when the instruments no longer qualified for hedge accounting.

A 10% adverse change in market prices would not materially affect our results of operations, financial position or liquidity, since our operations have effective economic hedging requirements as a general business practice.

Interest Rate Risk

We use fixed and floating rate debt to lessen the effects of interest rate fluctuations on interest expense. Short-term debt used to finance inventories and receivables is represented by notes payable with maturities of 30 days or less, so that our blended interest rate for all such notes approximates current market rates. Long-term debt used to finance non-current assets carries various fixed interest rates and is payable at various dates to minimize the effect of market interest rate changes. Our effective interest rate on fixed rate debt outstanding on August 31, 2008, was approximately 5.9%.

We entered into interest rate treasury lock instruments to fix interest rates related to a portion of our private placement indebtedness. These instruments were designated and are effective as cash flow hedges for accounting purposes and, accordingly, changes in fair value of $1.7 million loss, net of taxes, are included in accumulated other comprehensive income on August 31, 2008. Interest expense for each of the years ended August 31, 2008, 2007 and 2006, includes $0.8 million, $0.9 million and $0.9 million, respectively, which relates to interest rate derivatives. The additional interest expense is an offset to the lower actual interest paid on the outstanding debt instruments.

Foreign Currency Risk

We conduct essentially all of our business in U.S. dollars, except for grain marketing operations primarily in Brazil and Switzerland, and purchases of products from Canada. We had minimal risk regarding foreign currency fluctuations during 2008 and in prior years, as substantially all international sales were denominated in U.S. dollars. Foreign currency fluctuations do, however, impact the ability of foreign buyers to purchase U.S. agricultural products and the competitiveness of U.S. agricultural products compared to the same products offered by alternative sources of world supply.

MANAGEMENT

The information specified in Items 10, 11, 12 and 13 of Part III of our Annual Report on Form 10-K for the year ended August 31, 2008 is incorporated herein by reference. Except as set forth below with regard to a newly elected director and recently re-elected directors, this information has not materially changed since our Annual Report on Form 10-K for the year ended August 31, 2008, was filed on November 21, 2008.

We held our Annual Meeting December 4th through December 5th and the following new director was elected to the Board of Directors for a three-year term:

Name and Address	Age	Director Region	Since
Greg Kruger N49494 County Road Y, Eleva, WI 54738	49	5	2008

Greg Kruger (2008): Board chairman of the Countryside Cooperative in Durand, Wisconsin since 1998. From 1995 to 1998, he served on the board of Mondovi Co-op Equity in Mondovi, Wis. Past president of the

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Trempealeau County Farm Bureau, and current board member of the Trempealeau County Dairy Promotion Committee. Served two-year terms on both the CHS Resolutions Committee and the CHS Credentials Committee. Served on and worked with many educational committees and projects with the University of Wisconsin Extension program. Operates a dairy and crop farm near Eleva, Wis. Mr. Kruger s principal occupation has been farming for the last five years or longer.

As of December 17, 2008, Mr. Kruger does not hold shares of Preferred Stock. Mr. Kruger satisfies the definition of director independence set forth in the rules of the NASDAQ Global Select Market. Additionally, Mr. Kruger did not engage in any related party transactions with us during the year ended August 31, 2008.

The following directors were re-elected to the Board of Directors for a three-year term: Bruce Anderson, Curt Eischens, Jerry Hasnedl, Rich Owen and Dan Schurr. The following directors terms of office continued after the meeting: Donald Anthony, Robert Bass, Dennis Carlson, Steve Fritel, David Kayser, James Kile, Randy Knecht, Michael Mulcahey, Steve Riegel, Duane Stenzel and Michael Toelle.

DESCRIPTION OF THE PREFERRED STOCK

The following section summarizes the material terms and provisions of our preferred stock. This summary is not a complete legal description of our preferred stock, and is qualified in its entirety by reference to our restated articles of incorporation, as amended, our bylaws, as amended, and the resolution of our Board of Directors establishing the preferred stock.

General

The shares of preferred stock are shares of a series of preferred equity securities created by our Board of Directors. Subject to the restrictions noted below under Limitations and Restrictions on Future Issuances, there is no limit on the number of shares in the series and shares may be issued from time to time. Our Board of Directors has expressly authorized the initial sale and subsequent transfer of the shares of preferred stock in accordance with our articles of incorporation.

The shares of preferred stock to be issued as described in this prospectus will be fully paid and nonassessable when issued.

Rank

As to payment of dividends and as to distributions of assets upon the liquidation, dissolution or winding up of CHS, whether voluntary or involuntary, the preferred stock ranks prior to:

- any patronage refund (as that term is used in our bylaws), whether or not represented by a certificate, and any redemption thereof;
- any other class or series of our capital stock designated by our Board of Directors as junior to the preferred stock; and
- our common stock, if any.

Shares of any class or series of our capital stock that are not junior to the preferred stock rank equally with or senior to the preferred stock as to the payment of dividends and the distribution of assets.

Dividends

Holders of the preferred stock are entitled to receive quarterly dividends when, as and if declared by our Board of Directors out of funds legally available for that purpose at the rate of $2.00 per share per year. Dividends are payable on March 31, June 30, September 30 and December 31 of each year (each a payment date), except that if a payment date is a Saturday, Sunday or legal holiday, the dividend is payable without interest on the next day that is not a Saturday, Sunday or legal holiday. Dividends on the preferred stock are fully cumulative and accumulate without interest from and including the day immediately following the most

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recent date as to which dividends have been paid. The most recent date as to which dividends have been paid is September 30, 2008.

Dividends are computed on the basis of a 360-day year of twelve 30-day months. Each payment of dividends includes dividends to and including the date on which paid.

Dividends are paid to holders of record as they appear on our books ten business days prior to the relevant payment date. We may, in our sole discretion, pay dividends by any one or more of the following means:

check mailed to the address of the record holder as it appears on our books;

electronic transfer in accordance with instructions provided by the record holder; or

any other means mutually agreed between us and the record holder.

We may not make any distribution to the holders of any security that ranks junior to the preferred stock unless and until all accumulated and unpaid dividends on the preferred stock and on any other class or series of our capital stock that ranks equally with the preferred stock, including the full dividend for the then-current dividend period, have been paid or declared and set apart for payment. For these purposes, a distribution does not include any distribution made in connection with a liquidation, dissolution or winding up, which will be governed by the provisions summarized under Description of the Preferred Stock Liquidation Preference below.

Liquidation Preference

In a liquidation, dissolution or winding up of CHS, whether voluntary or involuntary, the holders of the preferred stock are entitled to receive out of our available assets $25.00 per share plus all dividends accumulated and unpaid on that share, whether or not declared, to and including the date of distribution. This distribution to the holders of the preferred stock will be made before any payment is made or assets distributed to the holders of any security that ranks junior to the preferred stock but after the payment of the liquidation preference of any of our securities that rank senior to the preferred stock. Any distribution to the holders of the preferred stock will be made ratably among the holders of the preferred stock and any other of our capital stock which ranks on a parity as to liquidation rights with the preferred stock in proportion to the respective preferential amounts to which each is entitled. After payment in full of the liquidation preference of the shares of preferred stock, the holders of the preferred stock will not participate further in the distribution of our assets.

Neither a consolidation or merger with another entity nor a sale or transfer of all or part of our assets for cash, securities or other property will constitute a liquidation, dissolution or winding up if, following the transaction, the preferred stock remains outstanding as duly authorized stock of us or any successor entity.

Redemption

At Our Option

We may, at our option, redeem at any time all, or from time to time any portion, of the preferred stock. Any optional redemption will be at a price of $25.00 per share plus all dividends accumulated and unpaid on that share, whether or not declared, to and including the date fixed for redemption. If we redeem less than all of the then outstanding shares of preferred stock, we will designate the shares to be redeemed either by lot or in any other manner that our Board of Directors may determine or may effect the redemption pro rata. However, we may not redeem less than all of the then outstanding shares of preferred stock until all dividends accumulated and unpaid on all then outstanding shares of

preferred stock have been paid for all past dividend periods. We have no current plan or intention to redeem the preferred stock.

At the Holder s Option

If at any time there has been a change in control (as defined below), each record holder of shares of the preferred stock will have the right, for a period of 90 days from the date of the change in control, to require

us to redeem all or any portion of the shares of preferred stock owned by that record holder. Not later than 130 days after the date of the change in control (or, if that date is a Saturday, Sunday or legal holiday, the next day that is not a Saturday, Sunday or legal holiday) we will redeem all shares the record holder has elected to have redeemed in a written notice delivered to us on or prior to the 90th day after the change in control. The redemption price is $25.00 per share plus all dividends accumulated and unpaid on that share, whether or not declared, to and including the date fixed for redemption.

A change in control will have occurred if, in connection with a merger or consolidation that has been approved by our Board of Directors (prior to submitting the merger or consolidation to our members for approval), whether or not we are the surviving entity, those persons who were members of our Board of Directors on January 1, 2003, together with those persons who became members of our Board of Directors after that date at our annual meeting, have ceased to constitute a majority of our Board of Directors. Under the Minnesota cooperative statute, our members could initiate a merger or consolidation without the approval of our Board of Directors; a member-initiated merger or consolidation would not meet this definition and thus would not trigger a redemption right.

Mechanics of Redemption

Not less than 30 days prior to any redemption date pursuant to the exercise of our optional redemption right, we will give written notice to the holders of record of the shares of preferred stock to be redeemed. This notice will specify:

- the redemption date;
- the redemption price;
- the number of shares of preferred stock held by the record holder that are subject to redemption;
- the time, place and manner in which the holder should surrender the certificate or certificates, if any, representing the shares of preferred stock to be redeemed, including the steps that a holder should take with respect to any certificates which have been lost, stolen or destroyed or to any uncertificated shares; and
- that from and after the redemption date, dividends will cease to accumulate on the shares and the shares will no longer be deemed outstanding.

On or after the redemption date, once a holder surrenders the certificate or certificates representing the shares of preferred stock called for redemption in the manner provided in the redemption notice or takes the appropriate steps with respect to lost, stolen or destroyed certificates or uncertificated shares, the holder will be entitled to receive payment of the redemption price. If fewer than all of the shares of preferred stock represented by a surrendered certificate or certificates are redeemed, we will issue a new certificate representing the unredeemed shares.

Effect of Redemption

From and after the redemption date, if funds necessary for the redemption are and have been irrevocably deposited or set aside, then:

- dividends will cease to accumulate with respect to the shares of preferred stock called for redemption;
- the shares will no longer be deemed outstanding;
- the holders of the shares will cease to be shareholders; and

all rights with respect to the shares of preferred stock will terminate except the right of the holders to receive the redemption price, without interest.

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Purchases

We may at any time and from time to time in compliance with applicable law purchase shares of preferred stock on the open market, pursuant to a tender offer or otherwise, at whatever price or prices and other terms we determine. We may not make any purchases at a time when there are accumulated but unpaid dividends for past dividend periods.

Voting

Except as described below, the holders of the preferred stock have only those voting rights that are required by applicable law. As a result, the holders of the preferred stock have very limited voting rights and, among other things, do not have any right to vote for the election of directors.

Unless the preferred stock is redeemed pursuant to its terms, the affirmative vote of the holders of at least two-thirds of the outstanding shares of the preferred stock, voting separately as a class, is required:

for any amendment, alteration or repeal, whether by merger or consolidation or otherwise, of our articles of incorporation or the resolutions establishing the terms of the preferred stock, if the amendment, alteration or repeal adversely affects the rights or preferences of the preferred stock; and

to establish, by board resolution or otherwise, any class or series of our equity securities having rights senior to the preferred stock as to the payment of dividends or distribution of assets upon the liquidation, dissolution or winding up of CHS, whether voluntary or involuntary.

The creation and issuance of any other class of our securities ranking on a parity with or junior to the preferred stock, including an increase in the authorized number of shares of any such securities, will not be deemed to adversely affect the rights or preferences of the preferred stock.

Our Board of Directors ability to authorize, without preferred stockholder approval, the issuance of additional classes or series of preferred stock with conversion and other rights may adversely affect you as a holder of preferred stock or the rights of holders of any series of preferred stock that may be outstanding.

No Exchange or Conversion Rights; No Sinking Fund

Shares of the preferred stock are not exchangeable or convertible into other class or series of our capital stock or other securities or property. The preferred stock is not subject to the operation of a purchase, retirement or sinking fund.

Certain Charter Provisions

For a description of some of the provisions of our articles of incorporation that might have an effect of delaying, deferring or preventing a change in control of us, see Membership in CHS and Authorized Capital Certain Antitakeover Measures.

As noted above under Membership in CHS and Authorized Capital Debt and Equity Instruments, under our articles of incorporation all equity we issue (including the preferred stock) is subject to a first lien in favor of us for all indebtedness of the holder to us. However, we have not to date taken, and do not intend to take, any steps to perfect this lien against shares of the preferred stock.

No Preemptive Rights

Holders of the preferred stock have no preemptive right to acquire shares of any class or series of our capital stock.

Market for the Preferred Stock

The preferred stock is currently listed on the NASDAQ Global Select Market under the symbol CHSCP. The following is a listing of the high and low sales prices as listed on the NASDAQ Global Select Market for

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the preferred stock during our fiscal quarters ended November 30, 2008, August 31, 2008, May 31, 2008, February 29, 2008, November 30, 2007, August 31, 2007, May 31, 2007 and February 28, 2007:

Price	November 30, 2008	August 31, 2008	May 31, 2008	February 29, 2008	November 30, 2007	August 31, 2007	May 31, 2007	February 28, 2007
High	$ 25.99	$ 25.84	$ 25.80	$ 25.95	$ 25.90	$ 25.90	$ 26.16	$ 26.50
Low	$ 24.50	$ 25.23	$ 24.25	$ 24.70	$ 25.15	$ 25.12	$ 25.50	$ 25.90

Transfer Agent and Registrar

Wells Fargo Bank, National Association serves as transfer agent and registrar with respect to the preferred stock.

COMPARISON OF RIGHTS OF HOLDERS OF PATRONS EQUITIES AND RIGHTS OF HOLDERS OF PREFERRED STOCK

The following describes the material differences between the rights that the patrons equities being redeemed provided to the members of CHS holding them and the rights that the preferred stock provides to the holders. While CHS believes that the description covers the material differences between the two, this summary may not contain all of the information that is important to you. You should carefully read this entire prospectus, including the sections entitled Membership in CHS and Authorized Capital and Description of the Preferred Stock, and refer to the documents discussed in those sections for a more complete understanding of the differences.

Priority on Liquidation

In a liquidation, dissolution or winding up of CHS, the rights of a holder of preferred stock rank senior to those of a holder of patrons equities.

Dividends

A holder of patrons equities is not entitled to any interest or dividends on those patrons equities. A holder of preferred stock is entitled to dividends as described under Description of the Preferred Stock Dividends.

Redemption

Patrons equities are redeemable only at the discretion of our Board of Directors and in accordance with the terms of the redemption policy adopted by our Board of Directors, as in effect from time to time. See Membership in CHS and Authorized Capital Patrons Equities for a description of the redemption policy as currently in effect. Shares of preferred stock are subject to redemption both at the option of CHS and at the holder s option under certain circumstances, both as described under Description of the Preferred Stock Redemption.

Voting Rights

Ownership of patrons equities does not, by itself, entail any voting rights, although the amount of patrons equities held by a member that is a cooperative association or a member that is part of a patron s association is considered in the formula used to determine the level of the member s voting rights of that cooperative association or patron s association. See Membership in CHS and Authorized Capital Voting Rights. Ownership of preferred stock entails the limited voting rights described under Description of the Preferred Stock Voting Rights.

Transfers

Patrons equities may not be transferred without the approval of our Board of Directors. Shares of preferred stock are not subject to any similar restrictions on transfer.

Market

There is no public market for patrons equities. The preferred stock is listed on the NASDAQ Global Select Market.

MATERIAL FEDERAL INCOME TAX CONSEQUENCES

The following summarizes the material federal income tax consequences of the issuance of shares of our preferred stock in redemption of patrons equities (the Exchange) and the consequences of the ownership, redemption and disposition of the preferred stock. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code), the final, temporary and proposed regulations promulgated thereunder and administrative rulings and judicial decisions now in effect, all of which are subject to change (possibly with retroactive effect). This summary addresses only the tax consequences to a person who is a U.S. holder of patrons equities or the preferred stock. You are a U.S. holder if you are:

an individual who is a citizen or resident of the U.S.;

a corporation (or any entity treated as a corporation for U.S. federal income tax purposes, such as a cooperative) organized under the laws of the U.S. or any political subdivision of the U.S.;

an estate if its income is subject to U.S. federal income tax regardless of its source; or

a trust if a U.S. court can exercise primary supervision over the trust s administration and one or more U.S. persons are authorized to control all substantial decisions of the trust.

This summary assumes that you will hold your shares of preferred stock as capital assets within the meaning of Section 1221 of the Code. The summary also assumes that all dividends will be paid as they accrue and that, if the preferred stock is redeemed, there will be no dividend arrearages at the time of redemption. The summary does not purport to deal with all aspects of federal taxation that may be relevant to your receipt of preferred stock pursuant to the Exchange, or to your ownership, redemption or disposition of the preferred stock, such as estate and gift tax consequences, nor does it deal with tax consequences arising under the laws of any state, local or other taxing jurisdiction. This summary also does not apply to you if you belong to a category of investors subject to special tax rules, such as dealers in securities, financial institutions, insurance companies, tax-exempt organizations, foreign persons, qualified retirement plans, individual retirement accounts, regulated investment companies, U.S. expatriates, pass-through entities or investors in pass-through entities or persons subject to the alternative minimum tax.

We can give no assurance that the Internal Revenue Service (the IRS) will take a similar view with respect to the tax consequences described below. We have not requested, nor do we plan to request, a ruling from the IRS on any tax matters relating to the Exchange or the preferred stock. We strongly encourage you to consult your own tax advisor regarding the federal, state, local, and foreign tax consequences to you of the Exchange and of the ownership, redemption, and disposition of the preferred stock in light of your particular tax circumstances.

The Exchange

Although no transaction closely comparable to the Exchange, as described in this prospectus, has been the subject of any Treasury regulation, ruling or administrative or judicial decision, we will receive an opinion of Dorsey & Whitney LLP that the exchange of patron s equities for preferred stock should constitute a reorganization within the meaning of Section 368(a)(1)(E) of the Code.

You should be aware that the opinion of Dorsey & Whitney LLP will be subject to the following qualifications and assumptions: it relies on certifications of relevant facts by us, is based upon provisions of the Code, regulations, and administrative and judicial decisions now in effect, all of which are subject to change (possibly with retroactive

effect), is subject to the assumption that the Exchange will be effected in the manner described in this prospectus, and is limited to the federal income tax matters expressly set forth therein. In addition, the opinion assumes that the fair market value of the preferred stock received will be approximately equal to the fair market value of the patrons equities surrendered in exchange therefor and that we have no current plan or intention to redeem the preferred stock. The opinion represents counsel s legal judgment and is not binding on the IRS or the courts.

Assuming the exchange of patrons equities for preferred stock constitutes a reorganization within the meaning of Section 368(a)(1)(E), the following tax consequences will result:

l. We will be a party to a reorganization within the meaning of Section 368(b) of the Code.

2. We will recognize no gain or loss upon the receipt of the patrons equities in exchange for the preferred stock.

3. The participants will recognize no gain or loss on the exchange of patrons equities for preferred stock, assuming that Section 305(c) of the Code does not apply in connection with the Exchange.

4. Provided the participants recognize no gain or loss on the exchange of patrons equities for preferred stock, the basis of the preferred stock received by the participants in the transaction will be the same as the basis of the patrons equities surrendered in exchange therefor.

5. The holding period of the preferred stock received by each participant will include the period during which the participant held the patrons equities surrendered in exchange therefor, provided that the patrons equities surrendered were held as capital assets on the date of the Exchange and assuming that Section 305(c) of the Code does not apply in connection with the Exchange.

It is also the opinion of Dorsey & Whitney LLP that the preferred stock received by the participants in the Exchange will not constitute section 306 stock within the meaning of Section 306(c) of the Code. Accordingly, a disposition of the Preferred Stock will not be subject to Section 306(a) of the Code, which provides generally that the gross proceeds from the sale or redemption of section 306 stock shall be treated either as ordinary income or as a distribution of property to which section 301 of the Code (concerning amounts taxable as dividends) applies.

Dorsey & Whitney LLP expresses no opinion regarding whether Section 305(c) of the Code will apply in connection with the Exchange, including but not limited to, whether any participant in the Exchange or other holder of any equity interest in CHS will, as a result of the Exchange, be deemed to receive a constructive distribution to which Section 301 of the Code applies by means of Section 305(c) of the Code. Pursuant to Section 305(c) of the Code and applicable Treasury Regulations, a recapitalization may be deemed to result in the receipt of a taxable stock dividend by some shareholders of a corporation, if the recapitalization is pursuant to a plan to periodically increase a shareholder s proportionate interest in the assets or earnings and profits of the corporation. The amount of any such deemed stock dividend would generally be equal to the amount of the increase in the shareholder s proportionate interest in the assets or earnings and profits of a corporation. Although the matter is not free from doubt, we believe, based on the nature of cooperatives and cooperative taxation, and the fact that the members of a cooperative share in the assets and earnings and profits of the cooperative primarily in accordance with each member s patronage of the cooperative, which can vary from year to year, that the Exchange is not part of any plan to periodically increase the proportionate interests of any participants or other holder of any equity interest in CHS. Accordingly, although there is no authority directly on point, we believe that no participant in the Exchange or other holder of any equity interest in CHS will, as a result of the Exchange, be deemed to receive a taxable stock dividend pursuant to Section 305(c) of the Code. You should consult your own tax advisor about the possibility that Section 305(c) could apply in these circumstances.

Dividends and Other Distributions on the Preferred Stock

Distributions on the preferred stock are treated as dividends and taxable as ordinary income to the extent of our current or accumulated earnings and profits, as determined for federal income tax purposes taking into account the special rules applicable to cooperatives. Any distribution in excess of our current or accumulated earnings and profits is treated first as a nontaxable return of capital reducing your tax basis in the preferred stock. Any amount in excess of

your tax basis is treated as a capital gain.

Dividends received by corporate holders of the preferred stock may be eligible for a dividends received deduction equal to 70% of the amount of the distribution, subject to applicable limitations, including limitations related to debt financed portfolio stock under Section 246A of the Code and to the holding period requirements of Section 246 of the Code. In addition, any amount received by a corporate holder that is treated as a dividend

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may constitute an extraordinary dividend subject to the provisions of Section 1059 of the Code (except as may otherwise be provided in Treasury Regulations yet to be promulgated). Under Section 1059, a corporate holder generally must reduce the tax basis of all of the holder s shares (but not below zero) by the non-taxed portion of any extraordinary dividend and, if the non-taxed portion exceeds the holder s tax basis for the shares, must treat any excess as gain from the sale or exchange of the shares in the year the payment is received. If you are a corporate holder, we strongly encourage you to consult your own tax advisor regarding the extent, if any, to which these provisions may apply to you in light of your particular facts and circumstances. Under current law, qualifying dividends received by individual shareholders are taxed at a 15% rate.

Sale or Exchange of Preferred Stock

On the sale or exchange of the preferred stock to a party other than us, you generally will realize capital gain or loss in an amount equal to the difference between (a) the amount of cash and the fair market value of any property you receive on the sale and (b) your adjusted tax basis in the preferred stock. We strongly encourage you to consult your own tax advisor regarding applicable rates, holding periods and netting rules for capital gains and losses in light of your particular facts and circumstances. Certain limitations exist on the deduction of capital losses by both corporate and non-corporate taxpayers.

Redemption of Preferred Stock

If we exercise our right to redeem the preferred stock or if you exercise your right to redeem the preferred stock upon a change in control, your surrender of the preferred stock for the redemption proceeds will be treated either as a payment received upon sale or exchange of the preferred stock or as a distribution with respect to all of your equity interests in us. Resolution of this issue will turn on the application of Section 302 of the Code to your individual facts and circumstances.

The redemption will be treated as gain or loss from the sale or exchange of the preferred stock (as discussed above under Sale or Exchange of Preferred Stock) if:

- the redemption is substantially disproportionate with respect to you within the meaning of Section 302(b)(2) of the Code; or

- your interest in the preferred stock and any other equity interest in us is completely terminated (within the meaning of Section 302(b) (3) of the Code) as a result of such redemption; or

- the redemption is not essentially equivalent to a dividend (within the meaning of Section 302(b)(1) of the Code). In general, redemption proceeds are not essentially equivalent to a dividend if the redemption results in a meaningful reduction of your interest in the issuer.

In determining whether any of these tests has been met, you must take into account not only shares of preferred stock and other equity interests in us (including patrons equities and other equity interests) that you actually own, but also shares and other equity interests that you constructively own within the meaning of Section 318 of the Code.

If none of the above tests giving rise to sale treatment is satisfied, then a payment made in redemption of the preferred stock will be treated as a distribution that is subject to the tax treatment described above under Dividends and other Distributions on the Preferred Stock. The amount of the distribution will be measured by the amount of cash and the fair market value of property you receive without any offset for your basis in the preferred stock. Your adjusted tax basis in the redeemed shares of preferred stock will be transferred to any of your remaining stock holdings in us. If, however, you have no remaining stock holdings in us, your basis could be lost.

We strongly encourage you to consult your own tax advisor regarding:

- whether the redemption payment will qualify for sale or exchange treatment under Section 302 of the Code or, alternatively, will be characterized as a distribution; and

- the resulting tax consequences to you in light of your individual facts and circumstances.

Backup Withholding

We may be required to withhold federal income tax at a rate of 28% from dividends and redemption proceeds paid to you if (i) you fail to furnish us with your correct taxpayer identification number in the manner required (ii) the IRS notifies us that your taxpayer identification number is incorrect (iii) the IRS notifies us that you have failed to report properly certain interest and dividend income to the IRS and to respond to notices to that effect or (iv) when required to do so, you fail to certify that you are not subject to backup withholding. Any amounts withheld can be credited against your federal income tax liability.

PLAN OF DISTRIBUTION

On October 8, 2008, our Board of Directors authorized us to redeem, on a pro rata basis, $50,000,000 of our patrons equities. In connection with this redemption, shares of preferred stock issued in redemption of the patrons equities will be issued only to non-individual active members who have conducted business with us during the past five years and whose pro rata share of the redemption amount is equal to or greater than $500. See Membership in CHS and Authorized Capital Patrons Equities for a description of patrons equities and our annual pro rata redemptions of patrons equities. The amount of patrons equities that will be redeemed with each share of preferred stock issued will be $, which is the greater of $25.17 (equal to the $25.00 liquidation preference per share of preferred stock plus $0.17 of accumulated dividends from and including January 1, 2009 to and including January 31, 2009) or the closing price for one share of the preferred stock on the NASDAQ Global Select Market on January , 2009, subject to the exceptions described below. We will not issue any fractional shares of preferred stock. The amount of patrons equities that would otherwise be issued as a fractional share to any member will instead be retained as part of that member s patron s equities.

We are issuing the shares of preferred stock directly to the relevant members. We have not engaged and will not engage any underwriter, broker-dealer, placement agent or similar agent or representative in connection with the issuance of the preferred stock described in this prospectus.

We will not pay any commissions or other compensation related to the issuance of the shares of preferred stock. We estimate that the total expenses of the issuance will be approximately $115,000, all of which we will bear.

Except in the circumstances described below, we will not prepare or distribute stock certificates to represent the shares of preferred stock so issued. Instead, we will issue the shares of preferred stock in book-entry form on the records of our transfer agent for the preferred stock (Wells Fargo Bank, National Association). Members who require a stock certificate should contact Wells Fargo Shareowner Services in writing or by telephone at the following address or telephone number:

Wells Fargo Shareowner Services
161 North Concord Exchange
South St. Paul, Minnesota 55075
(800) 468-9716

Some of our members have pledged their patrons equities and made those pledged patrons equities the subject of control agreements between us and various financial institutions. For these members, we will prepare stock certificates representing the shares issued in redemption of their patrons equities. We will retain those stock certificates subject to our control agreements with the relevant financial institutions until otherwise instructed by the relevant financial institution. We will also instruct the transfer agent to place a stop transfer order with respect to those shares. Members whose shares are issued as described in this paragraph may obtain more information by contacting David Kastelic in

writing or by telephone at the following address or telephone number:

David Kastelic
Senior Vice President and General Counsel
CHS Inc.
5500 Cenex Drive
Inver Grove Heights, Minnesota 55077
(651) 355-3712

LEGAL MATTERS

Dorsey & Whitney LLP, Minneapolis, Minnesota, is providing an opinion that the shares of preferred stock issued pursuant to this prospectus have been duly authorized and validly issued and will be fully paid and nonassessable.

EXPERTS

The consolidated financial statements and financial statement schedule of CHS Inc. and subsidiaries as of August 31, 2008 and 2007 and for each of the three years in the period ended August 31, 2008 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended, and file reports and other information with the Securities and Exchange Commission. Our SEC filings are available to the public over the Internet at the SEC s website at http://www.sec.gov. You may also read and copy any document we file with the SEC at its Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. Additionally, you can obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of its Public Reference Room.

The SEC allows us to incorporate by reference into this prospectus information we have filed with it. The information incorporated by reference is an important part of this prospectus and is considered to be part of this prospectus. We incorporate by reference the documents listed below:

- our Annual Report on Form 10-K for the year ended August 31, 2008, and
- our Current Reports on Form 8-K filed October 7, 2008, October 30, 2008 and December 9, 2008.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

CHS Inc.
Attention: Jodell M. Heller, Vice President and Controller
5500 Cenex Drive
Inver Grove Heights, Minnesota 55077
(651) 355-5270

We maintain a web site at www.chsinc.com. You may access our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act with the SEC free of charge through our web site as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

You should rely only on the information provided in or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the information incorporated by reference in it include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words and phrases such as will likely result, are expected to, is anticipated, estimate, project and similar expressions identify forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in the forward-looking statements. These risks and uncertainties include, but are not limited to, risks related to the level of commodity prices, loss of member business, competition, changes in the taxation of cooperatives, compliance with laws and regulations, environmental liabilities, perceptions of food quality and safety, business interruptions and casualty losses, access to equity capital, consolidation of producers and customers, fluctuations in prices for crude oil and refined petroleum products, alternative energy sources, the performance of our agronomy business, technological improvements and joint ventures. These risks and uncertainties are further described under Risk Factors and elsewhere in this prospectus.

We do not guarantee future results, levels of activity, performance or achievements and we wish to caution you not to place undue reliance on any forward-looking statements, which speak only as of the date on which they were made.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Members and Patrons of CHS Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of equities and comprehensive income and of cash flows present fairly, in all material respects, the financial position of CHS Inc. and its subsidiaries at August 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2008, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 12 to the consolidated financial statements, CHS Inc. changed the manner in which it accounts for defined benefit arrangements effective August 31, 2007.

/s/ PricewaterhouseCoopers LLP

November 4, 2008
Minneapolis, Minnesota

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

	August 31	
	2008	2007*
	(Dollars in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 136,540	$ 357,712
Receivables	2,307,794	1,401,251
Inventories	2,368,024	1,666,632
Derivative assets	369,503	247,082
Other current assets	667,338	264,181
Total current assets	5,849,199	3,936,858
Investments	784,516	880,592
Property, plant and equipment	1,948,305	1,728,171
Other assets	189,958	208,752
Total assets	$ 8,771,978	$ 6,754,373
LIABILITIES AND EQUITIES		
Current liabilities:		
Notes payable	$ 106,154	$ 672,571
Current portion of long-term debt	118,636	98,977
Customer credit balances	224,349	110,818
Customer advance payments	644,822	161,525
Checks and drafts outstanding	204,896	143,133
Accounts payable	1,838,214	1,120,822
Derivative liabilities	273,591	177,209
Accrued expenses	374,898	255,631
Dividends and equities payable	325,039	374,294
Total current liabilities	4,110,599	3,114,980
Long-term debt	1,076,219	589,344
Other liabilities	423,742	377,208
Minority interests in subsidiaries	205,732	197,386
Commitments and contingencies Equities	2,955,686	2,475,455
Total liabilities and equities	$ 8,771,978	$ 6,754,373

* Adjusted to reflect adoption of FASB Staff Position No. AUG AIR-1; see Note 2.

The accompanying notes are an integral part of the consolidated financial statements.
CHS Inc. and Subsidiaries

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Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended August 31		
	2008	2007*	2006*
	(Dollars in thousands)		
Revenues	$ 32,167,461	$ 17,215,992	$ 14,383,835
Cost of goods sold	30,993,899	16,129,233	13,540,285
Gross profit	1,173,562	1,086,759	843,550
Marketing, general and administrative	329,965	245,357	231,238
Operating earnings	843,597	841,402	612,312
Gain on investments	(29,193)	(20,616)	
Interest, net	76,460	31,098	41,305
Equity income from investments	(150,413)	(109,685)	(84,188)
Minority interests	72,160	143,214	91,079
Income from continuing operations before income taxes	874,583	797,391	564,116
Income taxes	71,538	40,668	59,350
Income from continuing operations	803,045	756,723	504,766
Income from discontinued operations, net of taxes			625
Net income	$ 803,045	$ 756,723	$ 505,391
Distribution of net income:			
Patronage refunds	$ 652,000	$ 550,000	$ 374,000
Unallocated capital reserve	151,045	206,723	131,391
Net income	$ 803,045	$ 756,723	$ 505,391

* Adjusted to reflect adoption of FASB Staff Position No. AUG AIR-1; see Note 2.

The accompanying notes are an integral part of the consolidated financial statements.
CHS Inc. and Subsidiaries

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Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF EQUITIES AND COMPREHENSIVE INCOME

For the Years Ended August 31, 2008, 2007 and 2006

	Capital Equity Certificates	Nonpatronage Equity Certificates	Preferred Stock	Patronage Refunds	Unallocated Capital Reserve	Accumulated Other Comprehensive Income (Loss)	Allocated Capital Reserve	Total Equities
				(Dollars in thousands)				
alances, September 1, 005*	$ 1,153,709	$ 27,467	$ 126,688	$ 142,100	$ 315,893	$ 4,971	$ 8,050	$ 1,778,878
ividends and equity tirement determination	69,856			60,900	1,650			132,406
atronage distribution	145,333			(203,000)	(4,850)			(62,517
quities retired	(55,836)	(97)						(55,933
apital equity rtificates exchanged r preferred stock	(23,824)		23,824		(88)			(88
quities issued	11,064							11,064
eferred stock vidends					(10,816)			(10,816
ther, net	(3,300)	(197)			221			(3,276
omprehensive income:								
et income				374,000	131,391			505,391
ther comprehensive come						8,131		8,131
otal comprehensive come								513,522
ividends and equities yable	(116,919)			(130,900)	(1,955)			(249,774
alances, August 31, 006*	1,180,083	27,173	150,512	243,100	431,446	13,102	8,050	2,053,466
ividends and equity tirement determination	116,919			130,900	1,955			249,774
atronage distribution	246,802			(374,000)	(5,860)			(133,058
quities retired	(70,402)	(382)						(70,784
apital equity rtificates exchanged r preferred stock	(35,899)		35,899		(145)			(145
quities issued	10,132							10,132
					(13,104)			(13,104

eferred stock vidends								
her, net	(3,203)	(145)			168		(9)	(3,189
omprehensive income:								
et income				550,000	206,723			756,723
her comprehensive come						62,353		62,353
otal comprehensive come								819,076
djustment to initially oply FASB Statement o. 158						(62,419)		(62,419
ividends and equities yable	(179,381)			(192,500)	(2,413)			(374,294
alances, August 31, 007*	1,265,051	26,646	186,411	357,500	618,770	13,036	8,041	2,475,455
ividends and equity tirement determination	179,381			192,500	2,413			374,294
tronage distribution	362,206			(550,000)	(7,210)			(195,004
quities retired	(81,295)	(500)						(81,795
apital equity rtificates exchanged r preferred stock	(46,364)		46,364		(135)			(135
quities issued	4,680							4,680
eferred stock vidends					(16,288)			(16,288
her, net	(2,057)	(804)			429		(17)	(2,449
omprehensive income:								
et income				652,000	151,045			803,045
her comprehensive ss						(81,078)		(81,078
otal comprehensive come								721,967
ividends and equities yable	(93,823)			(228,200)	(3,016)			(325,039
alances, August 31, 008	$ 1,587,779	$ 25,342	$ 232,775	$ 423,800	$ 746,008	$ (68,042)	$ 8,024	$ 2,955,686

* Adjusted to reflect adoption of FASB Staff Position No. AUG AIR-1; see Note 2.

The accompanying notes are an integral part of the consolidated financial statements.
CHS Inc. and Subsidiaries

Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended August 31		
	2008	2007*	2006*
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	$ 803,045	$ 756,723	$ 505,391
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	181,263	140,596	126,777
Amortization of deferred major repair costs	29,146	23,250	14,716
Income from equity investments	(150,413)	(109,685)	(84,188)
Distributions from equity investments	110,013	66,693	58,240
Minority interests	72,160	143,214	91,079
Noncash patronage dividends received	(4,083)	(3,302)	(4,969)
Gain on sale of property, plant and equipment	(5,668)	(6,916)	(5,232)
Gain on investments	(29,193)	(20,616)	
Deferred taxes	26,011	50,868	88,323
Other, net	770	4,261	460
Changes in operating assets and liabilities:			
Receivables	(832,146)	(278,179)	44,650
Inventories	(517,515)	(528,288)	(198,501)
Derivative assets	(122,421)	(172,809)	28,421
Other current assets and other assets	(98,625)	(81,906)	34,552
Customer credit balances	113,501	44,030	(25,915)
Customer advance payments	275,386	79,138	(48,062)
Accounts payable and accrued expenses	827,997	211,469	(101,254)
Derivative liabilities	96,382	79,399	(55,038)
Other liabilities	30,152	9,346	28,371
Net cash provided by operating activities	805,762	407,286	497,821
Cash flows from investing activities:			
Acquisition of property, plant and equipment	(318,559)	(373,300)	(234,992)
Proceeds from disposition of property, plant and equipment	9,336	13,548	13,911
Expenditures for major repairs	(21,662)	(34,664)	(42,879)
Investments	(370,248)	(95,834)	(72,989)
Investments redeemed	43,046	4,935	7,283
Proceeds from sale of investments	122,075	10,918	
Joint venture distribution transaction, net	(4,737)		
Changes in notes receivable	(67,119)	(29,320)	20,955
Acquisition of intangibles	(3,399)	(9,083)	(2,867)
Business acquisitions	(47,001)	(15,104)	
Other investing activities, net	(5,444)	(2,051)	3,351

Net cash used in investing activities	(663,712)	(529,955)	(308,227)
Cash flows from financing activities:			
Changes in notes payable	(565,022)	633,203	(59,025)
Long-term debt borrowings	600,000	4,050	
Principal payments on long-term debt	(99,479)	(60,851)	(36,669)
Payments for bank fees on debt	(3,486)	(104)	(1,997)
Changes in checks and drafts outstanding	61,110	85,412	(10,513)
Distributions to minority owners	(63,123)	(76,763)	(80,529)
Costs incurred capital equity certificates redeemed	(135)	(145)	(88)
Preferred stock dividends paid	(16,288)	(13,104)	(10,816)
Retirements of equities	(81,795)	(70,784)	(55,933)
Cash patronage dividends paid	(195,004)	(133,058)	(62,517)
Net cash (used in) provided by financing activities	(363,222)	367,856	(318,087)
Net (decrease) increase in cash and cash equivalents	(221,172)	245,187	(128,493)
Cash and cash equivalents at beginning of period	357,712	112,525	241,018
Cash and cash equivalents at end of period	$ 136,540	$ 357,712	$ 112,525

* Adjusted to reflect adoption of FASB Staff Position No. AUG AIR-1; see Note 2.

The accompanying notes are an integral part of the consolidated financial statements.
CHS Inc. and Subsidiaries

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies:

Organization

CHS Inc. (CHS or the Company) is an agricultural supply, energy and grain-based foods cooperative company organized for the mutual benefit of its members. Members of the cooperative are located throughout the United States. The Company provides a wide variety of products and services, from initial agricultural inputs such as fuels, farm supplies and agronomy products, to agricultural outputs that include grains and oilseeds, grain and oilseed processing and food products. Revenues are both domestic and international.

Consolidation

The consolidated financial statements include the accounts of CHS and all of its wholly-owned and majority-owned subsidiaries and limited liability companies, including National Cooperative Refinery Association (NCRA), included in the Energy segment. The effects of all significant intercompany transactions have been eliminated.

The Company had various acquisitions during the three years ended August 31, 2008, which have been accounted for using the purchase method of accounting. Operating results of the acquisitions are included in the consolidated financial statements since the respective acquisition dates. The respective purchase prices were allocated to the assets and liabilities acquired based upon the estimated fair values. The excess purchase prices over the estimated fair values of the net assets acquired have been reported as identifiable intangible assets.

Cash Equivalents

Cash equivalents include short-term, highly liquid investments with original maturities of three months or less at the date of acquisition.

Inventories

Grain, processed grain, oilseed and processed oilseed are stated at net realizable values which approximates market values. All other inventories are stated at the lower of cost or market. Costs for inventories produced or modified by the Company through a manufacturing process include fixed and variable production and raw material costs, and in-bound freight costs for raw materials. Costs for inventories purchased for resale include the cost of products and freight incurred to place the products at the Company s points of sales. The costs of certain energy inventories (wholesale refined products, crude oil and asphalt) are determined on the last-in, first-out (LIFO) method; all other inventories of non-grain products purchased for resale are valued on the first-in, first-out (FIFO) and average cost methods.

Derivative Financial Instruments

Commodity Price Risk.

The Company is exposed to price fluctuations on energy, grain and oilseed transactions due to fluctuations in the market value of inventories and fixed or partially fixed purchase and sales contracts. The Company s use of derivative instruments reduces the effects of price volatility, thereby protecting against adverse short-term price movements,

while somewhat limiting the benefits of short-term price movements. However, fluctuations in inventory valuations may not be completely hedged, due in part to the absence of satisfactory hedging facilities for certain commodities and geographical areas, and in part to the Company s assessment of its exposure from expected price fluctuations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company generally enters into opposite and offsetting positions using futures contracts or options to the extent practical, in order to arrive at a net commodity position within the formal position limits set by the Company and deemed prudent for each commodity. These contracts are purchased and sold through regulated commodity exchanges. The contracts are economic hedges of price risk, but are not designated or accounted for as hedging instruments for accounting purposes in any operations, with the exception of some contracts in prior years included in the Energy segment discussed below. These contracts are recorded on the Consolidated Balance Sheets at fair values based on quotes listed on regulated commodity exchanges. Unrealized gains and losses on these contracts are recognized in cost of goods sold in the Consolidated Statements of Operations using market-based prices. Hedging deposits related to these derivatives are $295.0 million and $181.9 million as of August 31, 2008 and 2007, respectively, and are included in other current assets.

The Company also manages its risks by entering into fixed-price purchase and sales contracts with pre-approved producers and by establishing appropriate limits for individual suppliers. Fixed-price contracts are entered into with customers of acceptable creditworthiness, as internally evaluated. The Company is also exposed to loss in the event of nonperformance by the counterparties to the contracts and therefore, contract values are reviewed and adjusted to reflect potential nonperformance. These contracts are recorded on the Consolidated Balance Sheets at fair values based on the market prices of the underlying products listed on regulated commodity exchanges, except for certain fixed-price contracts related to propane in the Energy segment. The propane contracts within the Energy segment meet the normal purchase and sales exemption, and thus are not required to be marked to fair value. Unrealized gains and losses on fixed-price contracts are recognized in cost of goods sold in our Consolidated Statements of Operations using market-based prices.

Changes in the fair values of derivative instruments described above are recognized in cost of goods sold in the Consolidated Statements of Operations in the period such changes occur for all operations with the exception of some derivative instruments in prior years included in the Energy segment.

In the Energy segment, certain financial contracts entered into for the spread between crude oil purchase value and distillate selling price were designated and accounted for as hedging instruments (cash flow hedges) in prior years. The unrealized gains or losses of these contracts were deferred to accumulated other comprehensive income in the equity section of the Consolidated Balance Sheets for the year ended August 31, 2006, and were included in earnings upon settlement. Settlement dates for these instruments extend through June 2009. At August 31, 2007, these instruments did not qualify for hedge accounting and therefore were recorded in cost of goods sold in the Consolidated Statements of Operations. On August 31, 2006, these contracts had a gain of $2.8 million, net of taxes, recorded in accumulated other comprehensive income, which was then recorded in earnings during fiscal 2007, when the instruments no longer qualified for hedge accounting.

Interest Rate Risk.

The Company uses fixed and floating rate debt to lessen the effects of interest rate fluctuations. Short-term debt used to finance inventories and receivables is represented by notes payable with maturities of 30 days or less, so that the blended interest rate to the Company for all such notes approximates current market rates. Long-term debt used to finance non-current assets carries various fixed interest rates and is payable at various dates to minimize the effect of market interest rate changes. The effective interest rate on fixed rate debt outstanding on August 31, 2008, was approximately 5.9%.

The Company enters into interest rate treasury lock instruments to fix interest rates related to a portion of its private placement indebtedness. These instruments were designated and are effective as cash flow hedges for accounting purposes and, accordingly, changes in fair value of $1.7 million loss, net of taxes, are included in accumulated other comprehensive income on August 31, 2008. Interest expense for each of the years ended August 31, 2008, 2007 and 2006, includes $0.8 million, $0.9 million and $0.9 million, respectively, which relates to the interest rate derivatives. The additional interest expense is an offset to the lower actual interest paid on the outstanding debt instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreign Currency Risk.

The Company conducts essentially all of its business in U.S. dollars, except for grain marketing operations primarily in Brazil and Switzerland, and purchases of products from Canada. The Company had minimal risk regarding foreign currency fluctuations during 2008 and in prior years, as substantially all international sales were denominated in U.S. dollars. Foreign currency fluctuations do, however, impact the ability of foreign buyers to purchase U.S. agricultural products and the competitiveness of U.S. agricultural products compared to the same products offered by alternative sources of world supply.

Investments

Investments in other cooperatives are stated at cost, plus patronage dividends received in the form of capital stock and other equities. Patronage dividends are recorded in cost of goods sold at the time qualified written notices of allocation are received. Joint ventures and other investments, in which the Company has significant ownership and influence, but not control, are accounted for in the consolidated financial statements using the equity method of accounting. Investments in other debt and equity securities are considered available for sale financial instruments and are stated at fair value, with unrealized amounts included as a component of accumulated other comprehensive income (loss).

Disclosure of the fair value of financial instruments, to which the Company is a party, includes estimates and assumptions which may be subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Investments in debt and equity instruments are carried at amounts that approximate estimated fair values. Investments in cooperatives and joint ventures have no quoted market prices.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on the straight-line method by charges to operations at rates based upon the expected useful lives of individual or groups of assets (primarily 15 to 40 years for land improvements and buildings and 3 to 20 years for machinery, equipment, office and other). The cost and related accumulated depreciation and amortization of assets sold or otherwise disposed of are removed from the related accounts and resulting gains or losses are reflected in operations. Expenditures for maintenance and repairs and minor renewals are expensed, while costs of major renewals and betterments are capitalized.

The Company reviews property, plant and equipment and other long-lived assets in order to assess recoverability based on projected income and related cash flows on an undiscounted basis when triggering events occur. Should the sum of the expected future net cash flows be less than the carrying value, an impairment loss would be recognized. An impairment loss would be measured by the amount by which the carrying value of the asset exceeds the fair value of the asset.

The Company has adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations , and FASB Interpretation (FIN) No. 47, Accounting for Conditional Asset Retirement Obligations . The Company has asset retirement obligations with respect to certain of its refineries and related assets due to various legal obligations to clean and/or dispose of various component parts at the time they are retired. However, these assets can be used for extended and indeterminate periods of time, as long as they are properly maintained and/or upgraded. It is the Company s practice and current intent to maintain refinery and related assets and to continue making improvements to those assets based on technological

advances. As a result, the Company believes that its refineries and related assets have indeterminate lives for purposes of estimating asset retirement obligations because dates or ranges of dates upon which the Company would retire refinery and related assets cannot reasonably be estimated at this time. When a date or range of dates can reasonably be estimated for the retirement of any component part

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of a refinery or related asset, the Company will estimate the cost of performing the retirement activities and record a liability for the fair value of that cost using established present value techniques.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price of an acquired entity over the amounts assigned to assets acquired and liabilities assumed. Goodwill and other intangible assets are reviewed for impairment annually or more frequently if certain impairment conditions arise, and those that are impaired are written down to fair value. Other intangible assets consist primarily of customer lists, trademarks and agreements not to compete. Intangible assets subject to amortization are expensed over their respective useful lives (ranging from 2 to 15 years). The Company has no material intangible assets with indefinite useful lives.

Revenue Recognition

The Company provides a wide variety of products and services, from production agricultural inputs such as fuels, farm supplies and crop nutrients, to agricultural outputs that include grain and oilseed, processed grains and oilseeds and food products. Grain and oilseed sales are recorded after the commodity has been delivered to its destination and final weights, grades and settlement prices have been agreed upon. All other sales are recognized upon transfer of title, which could occur upon either shipment or receipt by the customer, depending upon the terms of the transaction. Amounts billed to a customer as part of a sales transaction related to shipping and handling are included in revenues. Service revenues are recorded only after such services have been rendered.

Environmental Expenditures

Liabilities, including legal costs, related to remediation of contaminated properties are recognized when the related costs are considered probable and can be reasonably estimated. Estimates of environmental costs are based on current available facts, existing technology, undiscounted site-specific costs and currently enacted laws and regulations. Recoveries, if any, are recorded in the period in which recovery is considered probable. Liabilities are monitored and adjusted as new facts or changes in law or technology occur. Environmental expenditures are capitalized when such costs provide future economic benefits.

Income Taxes

The Company is a nonexempt agricultural cooperative and files a consolidated federal income tax return with its 80% or more owned subsidiaries. The Company is subject to tax on income from nonpatronage sources and undistributed patronage-sourced income. Income tax expense is primarily the current tax payable for the period and the change during the period in certain deferred tax assets and liabilities. Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for federal and state income tax purposes, at each fiscal year end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Comprehensive Income

Comprehensive income primarily includes net income, unrealized net gains or losses on available for sale investments and changes in the funded status of pension and other postretirement plans. Total comprehensive income is reflected

in the Consolidated Statements of Equities and Comprehensive Income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements which defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial assets and liabilities for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, Effective Date of FASB Statement No. 157. FSP 157-2 delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities that are not remeasured at fair value on a recurring basis until fiscal years beginning after November 15, 2008. Any amounts recognized upon adoption of this rule as a cumulative effect adjustment will be recorded to the opening balance of retained earnings in the year of adoption. The Company is in the process of evaluating the effect that the adoption of SFAS No. 157 will have on the consolidated results of operations and financial condition.

In October 2008, the FASB issued FSP 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. FSP 157-3 clarifies the definition of fair value by stating that a transaction price is not necessarily indicative of fair value in a market that is not active or in a forced liquidation or distressed sale. Rather, if the company has the ability and intent to hold the asset, the company may use its assumptions about future cash flows and appropriately adjusted discount rates in measuring fair value of the asset. The guidance in FSP 157-3 was effective immediately upon issuance, including prior periods for which financial statements have not been issued. The adoption of FSP 157-3 was not material to the Company s consolidated results of operations, statement of financial position or cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 provides entities with an option to report certain financial assets and liabilities at fair value, with changes in fair value reported in earnings, and requires additional disclosures related to an entity s election to use fair value reporting. It also requires entities to display the fair value of those assets and liabilities for which the entity has elected to use fair value on the face of the balance sheet. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is in the process of evaluating the effect that the adoption of SFAS No. 159 will have on the consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141R). SFAS No. 141R provides companies with principles and requirements on how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree, as well as the recognition and measurement of goodwill acquired in a business combination.
SFAS No. 141R also requires certain disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Acquisition costs associated with the business combination will generally be expensed as incurred. SFAS No. 141R is effective for business combinations occurring in fiscal years beginning after December 15, 2008. Early adoption of SFAS No. 141R is not permitted. The impact on our consolidated financial statements of adopting SFAS No. 141R will depend on the nature, terms and size of business

combinations completed after the effective date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin (ARB) No. 51. This statement amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest (minority interest) in a subsidiary and for the deconsolidation of a subsidiary. Upon its adoption, noncontrolling interests will be

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

classified as equity in the consolidated balance sheets. Income and comprehensive income attributed to the noncontrolling interest will be included in the consolidated statements of operations and the consolidated statements of equities and comprehensive income. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The provisions of SFAS No. 160 must be applied retrospectively upon adoption. The Company is in the process of evaluating the impact the adoption of SFAS No. 160 will have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of SFAS No. 133. SFAS No. 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. The Company is currently evaluating the impact of the adoption of SFAS No. 161 on the consolidated financial statements.

Reclassifications

Certain reclassifications have been made to prior year s amounts to conform to current year classifications. These reclassifications had no effect on previously reported net income, equities and comprehensive income, or cash flows.

Note 2 Change in Accounting Principle Turnarounds

During the first quarter of fiscal 2008, the Company changed its accounting method for the costs of major repairs (turnarounds) from the accrual method to the deferral method. Turnarounds are the scheduled and required shutdowns of refinery processing units for significant overhaul and refurbishment. Under the deferral accounting method, the costs of turnarounds are deferred when incurred and amortized on a straight-line basis over the period of time estimated to lapse until the next turnaround occurs. The new method of accounting for turnarounds was adopted in order to adhere to FSP No. AUG AIR-1 Accounting for Planned Major Maintenance Activities which prohibits the accrual method of accounting for planned major maintenance activities. The comparative financial statements for the years ended August 31, 2007 and 2006, have been adjusted to apply the new method retrospectively. These deferred costs are included in the Consolidated Balance Sheets in other assets. The amortization expenses related to turnaround costs are included in cost of goods sold in the Consolidated Statements of Operations. The following consolidated financial statement line items as of and for the years ended August 31, 2007 and August 31, 2006, were effected by this change in accounting principle:

	As of and for the Year Ended August 31, 2007			As of and for the Year Ended August 31, 2006		
	As Previously Reported	FSP AUG AIR-1 Adjustment	As Adjusted	As Previously Reported	FSP AUG AIR-1 Adjustment	As Adjusted
	(Dollars in thousands)					
Consolidated Balance Sheets						
Other assets	$ 147,965	$ 60,787	$ 208,752	$ 223,474	$ 51,583	$ 275,057
Accrued expenses	261,875	(6,244)	255,631	249,268	(19,390)	229,878
Other liabilities	359,198	18,010	377,208	310,157	28,342	338,499

Minority interests in subsidiaries	190,830	6,556	197,386	141,375	6,556	147,931
Equities	2,432,990	42,465	2,475,455	2,017,391	36,075	2,053,466
Consolidated Statements of Operations						
Cost of goods sold	$ 16,139,691	$ (10,458)	$ 16,129,233	$ 13,570,507	$ (30,222)	$ 13,540,285
Minority interests				85,974	5,105	91,079
Income from continuing operations before income taxes	786,933	10,458	797,391	538,999	25,117	564,116
Income taxes	36,600	4,068	40,668	49,327	10,023	59,350
Net income	750,333	6,390	756,723	490,297	15,094	505,391

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of and for the Year Ended August 31, 2007			As of and for the Year Ended August 31, 2006		
	As Previously Reported	FSP AUG AIR-1 Adjustment	As Adjusted	As Previously Reported	FSP AUG AIR-1 Adjustment	As Adjusted
	(Dollars in thousands)					
Consolidated Statements of Cash Flows						
Operating activities						
Net income	$ 750,333	$ 6,390	$ 756,723	$ 490,297	$ 15,094	$ 505,391
Amortization of deferred major repair costs		23,250	23,250		14,716	14,716
Minority interests				85,974	5,105	91,079
Deferred taxes	46,800	4,068	50,868	78,300	10,023	88,323
Changes in operating assets and liabilities:						
Other current assets and other assets	(84,116)	2,210	(81,906)	36,256	(1,704)	34,552
Accounts payable and accrued expenses	198,323	13,146	211,469	(87,896)	(13,358)	(101,254)
Other liabilities	23,746	(14,400)	9,346	15,368	13,003	28,371
Net cash provided by operating activities	372,622	34,664	407,286	454,942	42,879	497,821
Investing activities						
Expenditures for major repairs		(34,664)	(34,664)		(42,879)	(42,879)
Net cash used in investing activities	(495,291)	(34,664)	(529,955)	(265,348)	(42,879)	(308,227)

Note 3 Receivables

Receivables as of August 31, 2008 and 2007 are as follows:

	2008	2007
	(Dollars in thousands)	
Trade	$ 2,181,132	$ 1,366,428
Other	200,313	97,783
	2,381,445	1,464,211
Less allowances for doubtful accounts	73,651	62,960
	$ 2,307,794	$ 1,401,251

International sales for the years ended August 31, 2008, 2007 and 2006 are as follows:

	2008	2007	2006
	(Dollars in millions)		
Africa	$ 505	$ 229	$ 119
Asia	3,000	1,130	904
Europe	488	178	183
North America, excluding U.S.	1,399	900	717
South America	922	608	156
	$ 6,314	$ 3,045	$ 2,079

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Inventories

Inventories as of August 31, 2008 and 2007 are as follows:

	2008	2007
	(Dollars in thousands)	
Grain and oilseed	$ 918,514	$ 928,567
Energy	596,487	490,675
Crop nutrients	399,986	
Feed and farm supplies	371,670	178,167
Processed grain and oilseed	74,537	66,407
Other	6,830	2,816
	$ 2,368,024	$ 1,666,632

As of August 31, 2008, the Company valued approximately 10% of inventories, primarily related to energy, using the lower of cost, determined on the LIFO method, or market (17% as of August 31, 2007). If the FIFO method of accounting had been used, inventories would have been higher than the reported amount by $691.7 million and $389.0 million at August 31, 2008 and 2007, respectively. During 2008, energy inventory quantities were reduced, which resulted in liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of fiscal 2008 purchases. The effect of the liquidation decreased cost of goods sold by $32.5 million during 2008.

Note 5 Investments

Investments as of August 31, 2008 and 2007 are as follows:

	2008	2007
	(Dollars in thousands)	
Cooperatives:		
Land O Lakes, Inc.	$ 40,542	$ 41,061
Ag Processing Inc.	18,799	20,416
CoBank, ACB (CoBank)	13,851	12,659
VeraSun Energy Corporation	74,338	138,474
CF Industries Holdings, Inc.		101,986
Joint ventures:		
Ventura Foods, LLC	156,394	134,079
United Country Brands, LLC (Agriliance LLC)	147,449	182,834
Horizon Milling, LLC	66,529	36,092
Multigrain AG	65,573	23,082

Cofina Financial, LLC	41,378	39,805
TEMCO, LLC	26,969	11,957
Horizon Milling G.P.	20,242	15,500
Other	112,452	122,647
	$ 784,516	$ 880,592

After a fiscal 2005 initial public offering (IPO) transaction for CF Industries Inc., CHS held an ownership interest in CF Industries Holdings, Inc. (the post-IPO name) of approximately 3.9% or 2,150,396 shares. During the year ended August 31, 2007, CHS sold 540,000 shares of the stock for proceeds of $10.9 million, and recorded a pretax gain of $5.3 million, reducing its ownership interest in CF Industries Holdings, Inc. to approximately 2.9%. CHS accounted for this investment as an available for sale security, and accordingly, it

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

adjusted the carrying value of the shares to the $102.0 million market value on August 31, 2007. An unrealized pretax gain of $85.4 million related to this investment was included in accumulated other comprehensive income on August 31, 2007. During the year ended August 31, 2008, CHS sold all of its remaining 1,610,396 shares of stock for proceeds of $108.3 million and recorded a pretax gain of $91.7 million ($78.5 million net of taxes).

The Company purchased $70.0 million of common stock in US BioEnergy Corporation (US BioEnergy), an ethanol production company, during the year ended August 31, 2006. During the year ended August 31, 2007, the Company made additional investments of $45.4 million. In December 2006, US BioEnergy completed an IPO, and the effect of the issuance of additional shares of its stock was to dilute the Company s ownership interest from approximately 25% to 21%. In addition, on August 29, 2007, US BioEnergy completed an acquisition with total aggregate net consideration comprised of the issuance of US BioEnergy common stock and cash. Due to US BioEnergy s increase in equity, primarily from these two transactions, the Company recognized a non-cash net gain of $15.3 million on its investment during the year ended August 31, 2007, to reflect its proportionate share of the increase in the underlying equity of US BioEnergy. This gain is reflected in the Processing segment. During the first quarter of fiscal 2008, the Company purchased additional shares of US BioEnergy common stock for $6.5 million. Through March 31, 2008, the Company was recognizing its share of the earnings of US BioEnergy using the equity method of accounting. Effective April 1, 2008, US BioEnergy and VeraSun Energy Corporation (VeraSun) completed a merger, and the Company s current ownership interest in the combined entity was reduced to approximately 8%, compared to an approximate 20% interest in US BioEnergy prior to the merger. As part of the merger transaction, the Company s shares held in US BioEnergy were converted to shares held in the surviving company, VeraSun, at 0.810 per share. As a result of the Company s change in ownership interest it no longer has significant influence, and effective April 1, 2008, accounts for VeraSun as an available-for-sale investment. Due to the continued decline of the ethanol industry and other considerations, the Company determined that an impairment of its VeraSun investment was necessary, and as a result, based on VeraSun s market value of $5.76 per share on August 29, 2008, an impairment charge of $71.7 million ($55.3 million net of taxes) was recorded in gain on investments during the fourth quarter of the Company s year ended August 31, 2008. Subsequent to August 31, 2008, the market value of VeraSun s stock price continued to decline, and on October 31, 2008, Verasun filed for relief under Chapter 11 of the United States Bankruptcy Code. The Company will be evaluating an additional impairment during its first quarter of fiscal 2009.

During the year ended August 31, 2007, the Company invested $22.2 million in Multigrain AG (Multigrain) for a 37.5% equity position in a Brazil-based grain handling and merchandising company, Multigrain S.A., an agricultural commodities business headquartered in Sao Paulo, Brazil. The venture includes grain storage and export facilities and builds on the Company s South American soybean origination. During the year ended August 31, 2008, the Company increased its equity position through a purchase from an existing equity holder for $10.0 million, and also invested an additional $30.3 million which was used by Multigrain to invest in a joint venture that acquired production farmland and related operations. As of August 31, 2008, the Company had a 40.0% ownership interest in Multigrain, which is included in the Ag Business segment. During the first quarter of fiscal 2009, the Company and Mitsui & Co., Ltd. (Mitsui) invested an additional $200.0 million for Multigrain s increased capital needs resulting from expansion of its operations. The Company s share of the $200.0 million investment was $76.3 million, resulting in our current ownership interest of 39.35%, equal to Mitsui s ownership interest.

During the year ended August 31, 2007, the Company invested $15.6 million in Horizon Milling G.P. (24% ownership), a joint venture included in the Processing segment, that acquired the Canadian grain-based foodservice and industrial businesses of Smucker Foods of Canada, whose operations include flour milling and dry baking mixing facilities in Canada. During the year ended August 31, 2008, the Company invested an additional $1.9 million in Horizon Milling G.P.

The Company has a 50% interest in Ventura Foods, LLC, (Ventura Foods), a joint venture which produces and distributes primarily vegetable oil-based products, and is included in the Company s Processing segment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the year ended August 31, 2008, the Company invested an additional $20.0 million in Ventura Foods. The Company accounts for Ventura Foods as an equity method investment, and as of August 31, 2008, its carrying value of Ventura Foods exceeded its share of their equity by $15.7 million, of which $2.8 million is being amortized with a remaining life of approximately four years. The remaining basis difference represents equity method goodwill.

Agriliance, LLC (Agriliance) is owned and governed by United Country Brands, LLC (United Country Brands) (50%) and Land O Lakes, Inc. (Land O Lakes) (50%). United Country Brands is 100% owned by CHS. The Company accounts for its Agriliance investment using the equity method of accounting within the Ag Business segment. Prior to September 1, 2007, Agriliance was a wholesale and retail crop nutrients and crop protection products company. In September 2007, Agriliance distributed the assets of the crop nutrients business to the Company, and the assets of the crop protection business to Land O Lakes. After the distributions, Agriliance continues to exist as a 50-50 joint venture and primarily operates an agronomy retail distribution business. During the year ended August 31, 2008, the Company s net contribution to Agriliance was $235.0 million which supported their working capital requirements for ongoing operations, with Land O Lakes making equal contributions to Agriliance.

Due to the Company s 50% ownership interest in Agriliance and the 50% ownership interest of Land O Lakes, each company was entitled to receive 50% of the distributions from Agriliance. Given the different preliminary values assigned to the assets of the crop nutrients and the crop protection businesses of Agriliance, at the closing of the distribution transactions Land O Lakes owed the Company $133.5 million. Land O Lakes paid the Company $32.6 million in cash, and in order to maintain equal capital accounts in Agriliance, they also paid down certain portions of Agriliance s debt on the Company s behalf in the amount of $100.9 million. Values of the distributed assets were determined after the closing and in October 2007, the Company made a true-up payment to Land O Lakes in the amount of $45.7 million, plus interest. The final true-up is expected to occur during fiscal 2009.

The distribution of assets the Company received from Agriliance for the crop nutrients business had a book value of $248.2 million. The Company recorded 50% of the value of the net assets received at book value due to the Company s ownership interest in those assets when they were held by Agriliance, and 50% of the value of the net assets at fair value using the purchase method of accounting. Values assigned to the net assets acquired were:

		(Dollars in thousands)
Receivables	$	5,219
Inventories		174,620
Other current assets		256,390
Investments		6,096
Property, plant and equipment		29,682
Other assets		11,717
Customer advance payments		(206,252)
Accounts payable		(5,584)
Accrued expenses		(3,163)
Total net assets received	$	268,725

In March 2008, the Company learned that Agriliance would restate its financial statements because of what they considered to be a misapplication of Emerging Issues Task Force Issue (EITF) No. 02-16, Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor. CHS has determined that the effects of Agriliance s restatement on the Company s consolidated financial statements for fiscal 2007 and 2006, were not material.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following provides summarized financial information as reported, excluding restatements, for Agriliance balance sheets as of August 31, 2008 and 2007, and statements of operations for the years ended August 31, 2008, 2007 and 2006:

	2008	2007
	(Dollars in thousands)	
Current assets	$ 456,385	$ 1,534,432
Non-current assets	40,946	130,347
Current liabilities	119,780	1,214,019
Non-current liabilities	12,421	138,173

	2008	2007	2006
	(Dollars in thousands)		
Net sales	$ 1,070,892	$ 4,049,088	$ 3,739,632
(Loss) earnings from operations	(8,143)	116,584	76,052
Net (loss) income	(15,903)	58,701	52,268

Cofina Financial, LLC (Cofina Financial), a joint venture finance company formed in fiscal 2005, makes seasonal and term loans to member cooperatives and businesses and to individual producers of agricultural products. Through August 31, 2008, the Company held a 49% ownership interest in Cofina Financial and accounted for the investment using the equity method of accounting included in Corporate and Other. On September 1, 2008, CHS purchased Cenex Finance Association s remaining 51% ownership interest.

Various agreements with other owners of investee companies and a majority-owned subsidiary set out parameters whereby CHS may buy and sell additional interests in those companies, upon the occurrence of certain events, at fair values determinable as set forth in the specific agreements.

Note 6 Property, Plant and Equipment

A summary of property, plant and equipment as of August 31, 2008 and 2007 is as follows:

	2008	2007
	(Dollars in thousands)	
Land and land improvements	$ 104,306	$ 90,263
Buildings	474,399	410,556
Machinery and equipment	2,763,288	2,258,108
Office and other	90,061	81,091
Construction in progress	89,795	320,101
	3,521,849	3,160,119

Less accumulated depreciation and amortization	1,573,544	1,431,948
	$ 1,948,305	$ 1,728,171

The Company is leasing certain of its wheat milling facilities and related equipment to Horizon Milling, LLC under an operating lease agreement. The net book value of the leased milling assets at August 31, 2008 and 2007 was $70.8 million and $76.4 million, respectively, net of accumulated depreciation of $59.6 million and $54.0 million, respectively.

For the years ended August 31, 2008, 2007 and 2006, the Company capitalized interest of $9.8 million, $11.7 million and $4.7 million, respectively, related to capitalized construction projects.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Discontinued Operations

In May 2005, CHS sold the majority of its Mexican foods business. During 2006, the Company sold or disposed of the remaining assets. The operating results of the Mexican foods business are reported as discontinued operations.

Summarized results from discontinued operations for the year ended August 31, 2006 is as follows:

	2006 (Dollars in thousands)
Marketing, general and administrative*	$ (1,168)
Interest, net	145
Income tax expense	398
Income from discontinued operations	$ 625

* Includes a $1.6 million gain on disposition.

Note 8 Other Assets

Other assets as of August 31, 2008 and 2007 are as follows:

	2008	2007
	(Dollars in thousands)	
Goodwill	$ 3,804	$ 3,804
Customer lists, less accumulated amortization of $7,454 and $2,898, respectively	20,216	13,894
Non-compete covenants, less accumulated amortization of $2,668 and $1,826, respectively	3,265	3,201
Trademarks and other intangible assets, less accumulated amortization of $17,215 and $7,249, respectively	25,918	15,823
Prepaid pension and other benefits	64,023	101,073
Capitalized major maintenance	53,303	60,787
Notes receivable	12,356	5,874
Other	7,073	4,296
	$ 189,958	$ 208,752

Intangible assets acquired as part of business acquisitions during the years ended August 31, 2008 and 2007 totaled $18.6 million and $6.5 million, respectively, and were for the purchase of a soy-based food ingredients business included in the Processing segment in fiscal 2008, and a distillers dried grain business included in the Ag Business

segment acquired and paid for in fiscal 2008 and 2007. Various other cash acquisitions of intangibles totaled $3.4 million, $9.1 million and $2.9 million during the years ended August 31, 2008, 2007 and 2006, respectively.

Intangible assets amortization expense for the years ended August 31, 2008, 2007 and 2006, was $15.9 million, $3.2 million and $4.9 million, respectively. The estimated amortization expense related to intangible assets subject to amortization for the next five years will approximate $11.1 million for the first year, $7.4 million for the next three years, and $2.9 million for the following year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 Notes Payable and Long-Term Debt

Notes payable and long-term debt as of August 31, 2008 and 2007 consisted of the following:

	Interest Rates at August 31, 2008	2008	2007
		(Dollars in thousands)	
Notes payable(a)(k)	2.43% to 3.74%	$ 106,154	$ 672,571
Long-term debt:			
Revolving term loans from cooperative and other banks, payable in installments through 2009(b)(k)	3.96% to 7.13%	$ 49,700	$ 80,594
Revolving term loans from cooperative and other banks, payable in equal installments beginning in 2013 through 2018(c)(k)	5.59%	150,000	
Private placement, payable in equal installments beginning in 2013 through 2017(d)(k)	6.18%	400,000	
Private placement, payable in equal installments through 2013(e)(k)	6.81%	187,500	225,000
Private placement, payable in installments through 2018(f)(k)	4.96% to 5.60%	139,615	157,308
Private placement, payable in equal installments beginning in 2011 through 2015(g)(k)	5.25%	125,000	125,000
Private placement, payable in equal installments through 2011(h)(k)	7.43% to 7.90%	34,286	45,714
Private placement, payable in its entirety in 2010(i)(k)	4.08%	15,000	15,000
Private placement, payable in its entirety in 2011(i)(k)	4.39%	15,000	15,000
Private placement, payable in equal installments beginning in 2014 through 2018(i)(k)	5.78%	50,000	
Industrial revenue bonds, payable in its entirety in 2011	5.23%	3,925	3,925
Other notes and contracts(j)	1.89% to 12.17%	24,829	20,780
Total long-term debt		1,194,855	688,321
Less current portion		118,636	98,977
Long-term portion		$ 1,076,219	$ 589,344

	2008	2007
Weighted-average interest rates at August 31:		
Short-term debt	2.73%	6.50%
Long-term debt	5.90%	6.03%

(a) The Company finances its working capital needs through short-term lines of credit with a syndication of domestic and international banks. One of these revolving lines of credit is a five-year $1.3 billion committed facility, with $75.0 million outstanding on August 31, 2008. During fiscal 2008, the Company increased its short-term borrowing capacity by establishing a 364-day $500.0 million committed revolving line of credit, with no amount outstanding on August 31, 2008. In addition to these short-term lines of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

credit, the Company has a one-year committed credit facility dedicated to NCRA, with a syndication of banks in the amount of $15.0 million, with no amount outstanding on August 31, 2008. The Company also has a committed revolving line of credit dedicated to Provista in the amount of $25.0 million, with no amount outstanding on August 31, 2008. During fiscal 2008, our wholly-owned subsidiary, CHS Europe S.A., entered into uncommitted lines of credit to finance its normal trade grain transactions, of which $31.2 million was outstanding on August 31, 2008, and was collateralized by inventories and receivables. The Company has two commercial paper programs totaling up to $125.0 million with two banks participating in the five-year revolving credit facility. The commercial paper programs do not increase the committed borrowing capacity in that the Company is required to have at least an equal amount of undrawn capacity available on the five-year revolving facility as to the amount of commercial paper issued. On August 31, 2008, there was no commercial paper outstanding.

(b) The Company established a long-term credit agreement, which committed $200.0 million of long-term borrowing capacity to the Company through May 31, 1999, of which $164.0 million was drawn before the expiration date of that commitment. On August 31, 2008, $49.2 million was outstanding. NCRA term loans of $0.5 million are collateralized by NCRA s investment in CoBank.

(c) In December 2007, the Company established a 10-year long-term credit agreement through a syndication of cooperative banks in the amount of $150.0 million.

(d) In October 2007, the Company entered into a private placement with several insurance companies for long-term debt in the amount of $400.0 million.

(e) In June 1998, the Company entered into a private placement with several insurance companies for long-term debt in the amount of $225.0 million.

(f) In October 2002, the Company entered into a private placement with several insurance companies for long-term debt in the amount of $175.0 million.

(g) In September 2004, the Company entered into a private placement with several insurance companies for long-term debt in the amount of $125.0 million.

(h) In January 2001, the Company entered into a note purchase and private shelf agreement with Prudential Insurance Company. A long-term note was issued for $25.0 million and a subsequent note for $55.0 million was issued in March 2001.

(i) In March 2004, the Company entered into a note purchase and private shelf agreement with Prudential Capital Group. In April 2004, two long-term notes were issued for $15.0 million each. In April 2007, the agreement was amended with Prudential Investment Management, Inc. and several other participating insurance companies to expand the uncommitted facility from $70.0 million to $150.0 million. In February 2008, the Company borrowed $50.0 million under the shelf arrangement.

(j) Other notes and contracts payable of $11.6 million are collateralized by property, plant and equipment, with a cost of $23.5 million, less accumulated depreciation of $7.0 million on August 31, 2008.

(k)

The debt is unsecured; however, restrictive covenants under various agreements have requirements for maintenance of minimum working capital levels and other financial ratios.

In December 2006, NCRA entered into an agreement with the City of McPherson, Kansas related to certain of its ultra-low sulfur fuel assets, with a cost of approximately $325.0 million. The City of McPherson issued $325.0 million of Industrial Revenue Bonds (IRBs) which were transferred to NCRA as consideration in a financing agreement between the City of McPherson and NCRA related to the ultra-low sulfur fuel assets. The term of the financing obligation is ten years, at which time NCRA has the option of extending the financing obligation or purchasing the assets for a nominal amount. NCRA has the right at anytime to offset the financing obligation to the City of McPherson against the IRBs. No cash was exchanged in the transaction and none is anticipated to be exchanged in the future. Due to the structure of the agreement, the financing obligation and the IRBs are shown net in the Company s consolidated financial statements. On March 18, 2007, notification was sent to the bond trustees to pay the IRBs down by $324.0 million, at which time the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

financing obligation to the City of McPherson was offset against the IRBs. The balance of $1.0 million will remain outstanding until its final ten-year maturity.

The fair value of long-term debt approximates book value as of August 31, 2008 and 2007.

The aggregate amount of long-term debt payable as of August 31, 2008 is as follows:

	(Dollars in thousands)
2009	$ 118,636
2010	83,386
2011	112,329
2012	95,102
2013	181,085
Thereafter	604,317
	$ 1,194,855

Interest, net for the years ended August 31, 2008, 2007 and 2006 is as follows:

	2008	2007	2006
	(Dollars in thousands)		
Interest expense	$ 90,364	$ 51,811	$ 50,562
Interest income	13,904	20,713	9,257
Interest, net	$ 76,460	$ 31,098	$ 41,305

Note 10 Income Taxes

The provision for income taxes for the years ended August 31, 2008, 2007 and 2006 is as follows:

	2008	2007	2006
	(Dollars in thousands)		
Continuing operations:			
Current	$ 45,527	$ (10,200)	$ (28,973)
Deferred	15,578	42,068	91,123
Valuation allowance	10,433	8,800	(2,800)
Income taxes from continuing operations	71,538	40,668	59,350

Income taxes from discontinued operations			398
Income taxes	$ 71,538	$ 40,668	$ 59,748

The Company s current tax provision is significantly impacted by the utilization of loss carryforwards and tax benefits passed to the Company from NCRA. The passthrough tax benefits are associated with refinery upgrades that enable NCRA to produce ultra-low sulfur fuels as mandated by the Environmental Protection Agency (EPA).

Deferred taxes are comprised of basis differences related to investments, accrued liabilities and certain federal and state tax credits. NCRA files separate tax returns and, as such, these items must be assessed independent of the Company s deferred tax assets when determining recoverability.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred tax assets and liabilities as of August 31, 2008 and 2007 are as follows:

	2008	2007
	(Dollars in thousands)	
Deferred tax assets:		
Accrued expenses	$ 81,554	$ 81,653
Postretirement health care and deferred compensation	78,732	65,339
Tax credit carryforwards	51,306	50,402
Loss carryforwards	286	6,427
Other	15,095	15,169
Total deferred tax assets	226,973	218,990
Deferred tax liabilities:		
Pension	22,774	25,645
Investments	17,722	133,018
Major maintenance	15,148	32,411
Property, plant and equipment	297,276	191,369
Other	10,725	7,893
Total deferred tax liabilities	363,645	390,336
Deferred tax assets valuation reserve	(19,808)	(9,375)
Net deferred tax liabilities	$ 156,480	$ 180,721

During year ended August 31, 2008, the Company provided a valuation allowance of $11.6 million related to the carryforward of certain capital losses. During the year ended August 31, 2007, NCRA provided a $9.4 million valuation allowance related to its carryforward of certain state tax credits. This allowance was decreased by $1.1 million during its year ended August 31, 2008, due to a change in the amount of credits that are estimated to be used. The remaining allowance is necessary due to the limited amount of taxable income generated by NCRA on an annual basis.

As of August 31, 2008, net deferred taxes of $49.4 million and $205.9 million are included in current assets and other liabilities, respectively ($5.5 million and $186.2 million in current assets and other liabilities, respectively, as of August 31, 2007).

The reconciliation of the statutory federal income tax rates to the effective tax rates for continuing operations for the years ended August 31, 2008, 2007 and 2006 is as follows:

	2008	2007	2006

Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal income tax benefit	3.9	3.9	3.9
Patronage earnings	(29.2)	(27.1)	(26.2)
Export activities at rates other than the U.S. statutory rate	(0.1)	(1.6)	(0.8)
Valuation allowance	1.2	1.1	(0.5)
Tax credits	(2.3)	(3.6)	(1.7)
Other	(0.3)	(2.6)	0.8
Effective tax rate	8.2%	5.1%	10.5%

The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years ending on or before August 31, 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company adopted the provisions of FIN No. 48, Accounting for Uncertainty in Income Taxes , on September 1, 2007. As a result of the implementation of FIN No. 48, no significant increase or decrease in the liability for unrecognized tax benefits was recorded. A reconciliation of the gross beginning and ending amount of unrecognized tax benefits is as follows:

	2008 (Dollars in thousands)	
Beginning balance	$	7,259
Reductions for tax positions of prior years		(1,419)
Balance at August 31	$	5,840

The Company recognizes interest and penalties related to unrecognized tax benefits in its provision for income taxes. During the year ended August 31, 2008, the Company recognized approximately $44 thousand in interest. The Company had approximately $0.3 million for the payment of interest accrued on August 31, 2008.

Note 11 Equities

In accordance with the bylaws and by action of the Board of Directors, annual net earnings from patronage sources are distributed to consenting patrons following the close of each fiscal year, and are based on amounts using financial statement earnings. The cash portion of the patronage distribution is determined annually by the Board of Directors, with the balance issued in the form of capital equity certificates.

Annual net savings from sources other than patronage may be added to the unallocated capital reserve or, upon action by the Board of Directors, may be allocated to members in the form of nonpatronage equity certificates. Redemptions are at the discretion of the Board of Directors.

Redemptions of capital equity certificates approved by the Board of Directors are divided into two pools, one for non-individuals (primarily member cooperatives) who may participate in an annual pro-rata program for equities held by them, and another for individual members who are eligible for equity redemptions at age 70 or upon death. The amount that each non-individual member receives under the pro-rata program in any year will be determined by multiplying the dollars available for pro-rata redemptions, if any that year, as determined by the Board of Directors, by a fraction, the numerator of which is the amount of patronage certificates eligible for redemption held by them, and the denominator of which is the sum of the patronage certificates eligible for redemption held by all eligible holders of patronage certificates that are not individuals. In addition to the annual pro-rata program, the Board of Directors approved additional equity redemptions in prior years targeting older capital equity certificates which were redeemed in cash in fiscal 2008 and 2007. In accordance with authorization from the Board of Directors, the Company expects total redemptions related to the year ended August 31, 2008, that will be distributed in fiscal 2009, to be approximately $93.8 million. These expected distributions are classified as a current liability on the Consolidated Balance Sheets for the year ended August 31, 2008.

For the years ended August 31, 2008, 2007 and 2006, the Company redeemed in cash, equities in accordance with authorization from the Board of Directors, in the amounts of $81.8 million, $70.8 million and $55.9 million,

respectively. An additional $46.4 million, $35.9 million and $23.8 million of capital equity certificates were redeemed in fiscal 2008, 2007 and 2006, respectively, by issuance of shares of the Company s 8% Cumulative Redeemable Preferred Stock (Preferred Stock). The amount of equities redeemed with each share of Preferred Stock issued was $25.65, $26.09 and $26.10, which was the closing price per share of the stock on the NASDAQ Global Select Market on February 11, 2008, February 8, 2007 and January 23, 2006, respectively.

The Preferred Stock is listed on the NASDAQ Global Select Market under the symbol CHSCP. On August 31, 2008, the Company had 9,047,780 shares of Preferred Stock outstanding with a total redemption value of approximately $226.2 million, excluding accumulated dividends. The Preferred Stock accumulates

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

dividends at a rate of 8% per year, which are payable quarterly, and is redeemable at the Company s option. At this time, the Company has no current plan or intent to redeem any Preferred Stock.

Note 12 Benefit Plans

The Company has various pension and other defined benefit and defined contribution plans, in which substantially all employees may participate. The Company also has non-qualified supplemental executive and board retirement plans. As of August 31, 2008, NCRA s measurement date was August 31, 2008, and the CHS measurement date was June 30, 2008.

Financial information on changes in benefit obligation and plan assets funded and balance sheets status as of August 31, 2008 and 2007 is as follows:

	Qualified Pension Benefits		Non-Qualified Pension Benefits		Other Benefits	
	2008	2007	2008	2007	2008	2007
	(Dollars in thousands)					
Change in benefit obligation:						
Benefit obligation at beginning of period	$ 346,319	$ 328,125	$ 35,644	$ 23,381	$ 28,001	$ 28,315
Service cost	15,387	14,360	1,246	1,023	1,175	957
Interest cost	21,266	19,259	2,190	1,480	1,814	1,668
Plan amendments		14,960		727		
Actuarial loss (gain)	3,493	(852)	492	9,794	713	881
Assumption change	(9,196)	(5,401)	(756)	(37)	(61)	(1,482)
Special agreements			467		4,000	
Medicare D					314	262
Benefits paid	(23,135)	(24,132)	(1,093)	(724)	(1,578)	(2,600)
Benefit obligation at end of measurement date	$ 354,134	$ 346,319	$ 38,190	$ 35,644	$ 34,378	$ 28,001
Change in plan assets:						
Fair value of plan assets at beginning of period	$ 382,431	$ 345,860				
Actual (loss) income on plan assets	(18,045)	45,826				
Company contributions	25,299	14,877	$ 1,093	$ 724	$ 1,578	$ 2,600
Benefits paid	(23,135)	(24,132)	(1,093)	(724)	(1,578)	(2,600)
Fair value of plan assets at end of measurement date	$ 366,550	$ 382,431	$	$	$	$
	$ 12,416	$ 36,112	$ (38,190)	$ (35,644)	$ (34,378)	$ (28,001)

Funded status at end of measurement date						
Amounts recognized on balance sheet:						
Non-current assets	$ 13,234	$ 36,083				
Accrued benefit cost:						
Current liabilities			$ (1,397)	$ (1,862)	$ (2,412)	$ (1,911)
Non-current liabilities	(818)		(35,443)	(33,119)	(31,777)	(25,828)
Ending balance	$ 12,416	$ 36,083	$ (36,840)	$ (34,981)	$ (34,189)	$ (27,739)
Amounts recognized in accumulated other comprehensive income (pre-tax):						
Net transition obligation					$ 4,581	$ 5,516
Prior service cost (credit)	$ 17,444	$ 19,608	$ 1,697	$ 2,276	(724)	(1,044)
Net loss (gain)	114,457	75,886	9,328	10,434	(786)	(1,603)
Minority interest	(10,776)	(7,191)	(70)	(53)	(1,079)	(1,226)
Ending balance	$ 121,125	$ 88,303	$ 10,955	$ 12,657	$ 1,992	$ 1,643

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The accumulated benefit obligation of the qualified pension plans was $331.4 million and $321.8 million at August 31, 2008 and 2007, respectively. The accumulated benefit obligation of the non-qualified pension plans was $27.4 million and $22.7 million at August 31, 2008 and 2007, respectively.

For measurement purposes, an 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended August 31, 2008. The rate was assumed to decrease gradually to 5.0% for 2015 and remain at that level thereafter. Components of net periodic benefit costs for the years ended August 31, 2008, 2007 and 2006 are as follows:

	Qualified Pension Benefits			Non-Qualified Pension Benefits			Other Benefits		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
	(Dollars in thousands)								
omponents of net eriodic benefit cost:									
ervice cost	$ 15,387	$ 14,360	$ 14,892	$ 1,246	$ 1,023	$ 2,195	$ 1,175	$ 957	$ 1,024
terest cost	21,266	19,259	17,037	2,190	1,480	1,368	1,814	1,668	1,568
xpected return on sets	(31,274)	(29,171)	(28,362)						
pecial agreements				467			4,000		
rior service cost redit) amortization	2,164	867	855	579	494	516	(320)	(319)	(305
ctuarial loss (gain) mortization	4,887	5,766	7,513	841	77	210	(165)	(231)	17
ransition amount mortization							935	936	936
et periodic benefit ost	$ 12,430	$ 11,081	$ 11,935	$ 5,323	$ 3,074	$ 4,289	$ 7,439	$ 3,011	$ 3,240
verage assumptions:									
iscount rate	6.25%	6.25%	6.05%	6.25%	6.25%	6.05%	6.25%	6.25%	6.05%
xpected return on an assets	8.75%	8.75%	8.80%	N/A	N/A	N/A	N/A	N/A	N/A
ate of compensation crease	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%

The estimated amortization in fiscal 2009 from accumulated other comprehensive income into net periodic benefit cost is as follows:

	Qualified Pension Benefits	Non-Qualified Pension Benefits	Other Benefits

		(Dollars in thousands)	
Amortization of transition obligation			$ 936
Amortization of prior service cost (benefit)	$ 2,115	$ 546	(197)
Amortization of net actuarial loss (gain)	4,980	646	(166)
Minority interest	(618)	(3)	(82)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in the assumed health care cost trend rates would have the following effects:

	1% Increase	**1% Decrease**
	(Dollars in thousands)	
Effect on total of service and interest cost components	$ 260	$ (250)
Effect on postretirement benefit obligation	2,200	(2,000)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company provides defined life insurance and health care benefits for certain retired employees and Board of Directors participants. The plan is contributory based on years of service and family status, with retiree contributions adjusted annually.

The Company has other contributory defined contribution plans covering substantially all employees. Total contributions by the Company to these plans were $12.2 million, $10.7 million and $9.7 million, for the years ended August 31, 2008, 2007 and 2006, respectively.

The Company contributed $25.3 million to qualified pension plans in fiscal 2008. Based on the fully funded status of the qualified pension plans as of August 31, 2008, the Company does not expect to contribute to these plans in fiscal 2009. The Company expects to pay $3.8 million to participants of the non-qualified pension and postretirement benefit plans during fiscal 2009.

The Company s retiree benefit payments which reflect expected future service are anticipated to be paid as follows:

	Qualified Pension Benefits	Non-Qualified Pension Benefits	Other Benefits	
			Gross	Medicare D
	(Dollars in thousands)			
2009	$ 24,332	$ 1,397	$ 2,412	$ 200
2010	26,290	1,975	2,632	200
2011	27,412	9,483	2,845	200
2012	29,886	1,476	3,040	200
2013	32,332	5,235	3,192	200
2014-2018	191,460	15,682	16,673	1,000

The Company has trusts that hold the assets for the defined benefit plans. The Company and NCRA have qualified plan committees that set investment guidelines with the assistance of external consultants. Investment objectives for the Company s plan assets are to:

- optimize the long-term returns on plan assets at an acceptable level of risk, and
- maintain broad diversification across asset classes and among investment managers, and focus on long-term return objectives.

Asset allocation targets promote optimal expected return and volatility characteristics given the long-term time horizon for fulfilling the obligations of the pension plans. An annual analysis on the risk versus the return of the investment portfolio is conducted to justify the expected long-term rate of return assumption. The Company generally uses long-term historical return information for the targeted asset mix identified in asset and liability studies. Adjustments are made to the expected long-term rate of return assumption, when deemed necessary, based upon revised expectations of future investment performance of the overall investment markets.

The discount rate reflects the rate at which the associated benefits could be effectively settled as of the measurement date. In estimating this rate, the Company looks at rates of return on fixed-income investments of similar duration to

the liabilities in the plans that receive high, investment grade ratings by recognized ratings agencies.

The investment portfolio contains a diversified portfolio of investment categories, including domestic and international equities, fixed income securities and real estate. Securities are also diversified in terms of domestic and international securities, short and long-term securities, growth and value equities, large and small cap stocks, as well as active and passive management styles.

The committees believe that with prudent risk tolerance and asset diversification, the plans should be able to meet pension obligations in the future.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company s pension plans average asset allocations by asset categories are as follows:

	2008	2007
Cash	6.3%	2.7%
Debt	29.6	29.7
Equities	57.8	62.0
Real estate	4.7	3.9
Other	1.6	1.7
Total	100.0%	100.0%

Effective August 31, 2007, the Company adopted SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). This statement requires recognition of the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the balance sheet and to recognize changes in that funded status in comprehensive income in the year in which the changes occur.

The adoption of SFAS No. 158 on August 31, 2007, resulted in incremental adjustments to the following individual line items in the Consolidated Balance Sheets:

	Pre-SFAS No. 158 With AML Adjustments	SFAS No. 158 Adoption Adjustments	Post SFAS No. 158
		(Dollars in thousands)	
Prepaid pension	$ 131,322	$ (95,239)	$ 36,083
Accrued pension liability	(47,663)	(15,057)	(62,720)
Intangible asset	291	(291)	
Deferred tax asset	189	39,699	39,888
Minority interest		8,469	8,469
Accumulated other comprehensive income, net of tax	296	62,419	62,715
Accumulated other comprehensive income, pre-tax	485	102,118	102,603

Note 13 Segment Reporting

The Company aligned its business segments based on an assessment of how its businesses operate and the products and services it sells. As a result of this assessment, the Company has three chief operating officers to lead its three business segments: Energy, Ag Business and Processing.

The Energy segment derives its revenues through refining, wholesaling, marketing and retailing of petroleum products. The Ag Business segment derives its revenues through the sale of wholesale crop nutrients, the origination

and marketing of grain, including service activities conducted at export terminals, through the retail sales of petroleum and agronomy products, processed sunflowers, feed and farm supplies, and records equity income from investments in the Company s agronomy joint ventures, grain export joint ventures and other investments. The Processing segment derives its revenues from the sales of soybean meal, soybean refined oil and soy-based food products, and records equity income from two wheat milling joint ventures, a vegetable oil-based food manufacturing and distribution joint venture, and an ethanol manufacturing company. The Company includes other business operations in Corporate and Other because of the nature of their products and services, as well as the relative revenue size of those businesses. These businesses primarily include the Company s insurance, hedging and other service activities related to crop production.

Reconciling Amounts represent the elimination of revenues between segments. Such transactions are conducted at market prices to more accurately evaluate the profitability of the individual business segments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company assigns certain corporate general and administrative expenses to its business segments based on use of such services and allocates other services based on factors or considerations relevant to the costs incurred.

Expenses that are incurred at the corporate level for the purpose of the general operation of the Company are allocated to the segments based upon factors which management considers non-symmetrical. Due to efficiencies in scale, cost allocations and intersegment activity, management does not represent that these segments, if operated independently, would report the income before income taxes and other financial information as presented.

Segment information for the years ended August 31, 2008, 2007 and 2006 is as follows:

	Energy	Ag Business	Processing	Corporate and Other	Reconciling Amounts	Total
			(Dollars in thousands)			
For the year ended August 31, 2008:						
Revenues	$ 11,499,814	$ 19,696,907	$ 1,299,209	$ 31,363	$ (359,832)	$ 32,167,461
Cost of goods sold	11,027,459	19,088,079	1,240,944	(2,751)	(359,832)	30,993,899
Gross profit	472,355	608,828	58,265	34,114		1,173,562
Marketing, general and administrative	111,121	160,364	26,089	32,391		329,965
Operating earnings	361,234	448,464	32,176	1,723		843,597
(Gain) loss on investments	(35)	(100,830)	72,602	(930)		(29,193)
Interest, net	(5,227)	63,665	21,995	(3,973)		76,460
Equity income from investments	(5,054)	(83,053)	(56,615)	(5,691)		(150,413)
Minority interests	71,805	355				72,160
Income (loss) from continuing operations before income taxes	$ 299,745	$ 568,327	$ (5,806)	$ 12,317	$	$ 874,583
Intersegment revenues	$ (322,522)	$ (36,972)	$ (338)		$ 359,832	$
Goodwill	$ 3,654	$ 150				$ 3,804
Capital expenditures	$ 251,401	$ 56,704	$ 5,994	$ 4,460		$ 318,559
Depreciation and amortization	$ 107,949	$ 50,933	$ 15,902	$ 6,479		$ 181,263
	$ 3,216,852	$ 4,172,950	$ 748,989	$ 633,187		$ 8,771,978

Total identifiable assets at August 31, 2008												
For the year ended August 31, 2007:												
Revenues	$	8,105,067	$	8,575,389	$	754,743	$	28,465	$	(247,672)	$	17,215,992
Cost of goods sold		7,264,180		8,388,476		726,510		(2,261)		(247,672)		16,129,233
Gross profit		840,887		186,913		28,233		30,726				1,086,759
Marketing, general and administrative		94,939		97,299		23,545		29,574				245,357
Operating earnings		745,948		89,614		4,688		1,152				841,402
Gain on investments				(5,348)		(15,268)						(20,616)
Interest, net		(6,106)		28,550		14,783		(6,129)				31,098
Equity income from investments		(4,468)		(51,830)		(48,446)		(4,941)				(109,685)
Minority interests		143,230		(16)								143,214
Income from continuing operations before income taxes	$	613,292	$	118,258	$	53,619	$	12,222	$		$	797,391
Intersegment revenues	$	(228,930)	$	(18,372)	$	(370)			$	247,672	$	
Goodwill	$	3,654	$	150							$	3,804
Capital expenditures	$	313,246	$	44,020	$	12,092	$	3,942			$	373,300
Depreciation and amortization	$	86,558	$	33,567	$	15,116	$	5,355			$	140,596
Total identifiable assets at August 31, 2007	$	2,797,831	$	2,846,950	$	681,118	$	428,474			$	6,754,373

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Energy	Ag Business	Processing	Corporate and Other	Reconciling Amounts	Total
			(Dollars in thousands)			
For the year ended August 31, 2006:						
Revenues	$ 7,414,361	$ 6,575,165	$ 614,471	$ 31,415	$ (251,577)	$ 14,383,835
Cost of goods sold	6,804,454	6,401,527	588,732	(2,851)	(251,577)	13,540,285
Gross profit	609,907	173,638	25,739	34,266		843,550
Marketing, general and administrative	82,867	99,777	21,645	26,949		231,238
Operating earnings	527,040	73,861	4,094	7,317		612,312
Interest, net	6,534	23,559	11,096	116		41,305
Equity income from investments	(3,840)	(40,902)	(35,504)	(3,942)		(84,188)
Minority interests	91,588	(509)				91,079
Income from continuing operations before income taxes	$ 432,758	$ 91,713	$ 28,502	$ 11,143	$	$ 564,116
Intersegment revenues	$ (242,430)	$ (8,779)	$ (368)		$ 251,577	$
Capital expenditures	$ 175,231	$ 44,542	$ 13,313	$ 1,906		$ 234,992
Depreciation and amortization	$ 75,581	$ 31,471	$ 14,049	$ 5,676		$ 126,777

Note 14 Commitments and Contingencies

Environmental

The Company is required to comply with various environmental laws and regulations incidental to its normal business operations. In order to meet its compliance requirements, the Company establishes reserves for the probable future costs of remediation of identified issues, which are included in cost of goods sold and marketing, general and administrative expenses in the Consolidated Statements of Operations. The resolution of any such matters may affect consolidated net income for any fiscal period; however, management believes any resulting liabilities, individually or in the aggregate, will not have a material effect on the consolidated financial position, results of operations or cash flows of the Company during any fiscal year.

The Company has completed certain refinery upgrades and enhancements in order to comply with existing environmental regulations, and has incurred capital expenditures from fiscal 2003 through 2006 totaling $88.1 million for the Company s Laurel, Montana refinery and $328.7 million for NCRA s McPherson, Kansas refinery.

The EPA has passed a regulation that requires the reduction of the benzene level in gasoline to be less than 0.62% volume by January 1, 2011. As a result of this regulation, the Company s refineries will incur capital expenditures to reduce the current gasoline benzene levels to the regulated levels. The Company anticipates the combined capital expenditures for the Laurel and NCRA refineries to be approximately $130 million, for which $73 million is included in budgeted capital expenditures for fiscal 2009.

Other Litigation and Claims

The Company is involved as a defendant in various lawsuits, claims and disputes, which are in the normal course of the Company s business. The resolution of any such matters may affect consolidated net income for any fiscal period; however, management believes any resulting liabilities, individually or in the aggregate, will not have a material effect on the consolidated financial position, results of operations or cash flows of the Company during any fiscal year.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Grain Storage

As of August 31, 2008 and 2007, the Company stored grain for third parties totaling $357.4 million and $184.1 million, respectively. Such stored commodities and products are not the property of the Company and therefore are not included in the Company s inventories.

Guarantees

The Company is a guarantor for lines of credit for related companies. The Company s bank covenants allow maximum guarantees of $500.0 million, of which $41.7 million was outstanding on August 31, 2008. All outstanding loans with respective creditors are current as of August 31, 2008.

Cofina Financial, in which the Company had a 49% ownership interest through August 31, 2008, makes seasonal and term loans to cooperatives and individual agricultural producers. The Company may, at its own discretion, choose to guarantee certain loans made by Cofina Financial. In addition, the Company also guarantees certain debt and obligations under contracts for its subsidiaries and members.

The Company s obligations pursuant to its guarantees as of August 31, 2008 are as follows:

Entities	Guarantee/ Maximum Exposure	Exposure on August 31, 2008	Nature of Guarantee	Expiration Date	Triggering Event	Recourse Provisions	Assets Held as Collateral
	(Dollars in thousands)						
Mountain Country, LLC	$ 150	$ 30	Obligations by Mountain Country under credit agreement	None stated, but may be terminated upon 90 days prior notice in regard to future obligations	Credit agreement default	Subrogation against Mountain Country	Some or all assets of borrower are held as collateral and should be sufficient to cover guarantee exposure
Morgan County Investors, LLC	$ 394	$ 394	Obligations by Morgan County Investors under credit agreement	When obligations are paid in full, scheduled for year 2018	Credit agreement default	Subrogation against Morgan County Investors	Some or all assets of borrower are held as collateral and should be sufficient to cover guarantee exposure

Horizon Milling, LLC	$ 5,000		Indemnification and reimbursement of 24% of damages related to Horizon Milling s performance under a flour sales agreement	None stated, but may be terminated by any party upon 90 days prior notice in regard to future obligations	Nonperformance under flour sales agreement	Subrogation against Horizon Milling	None
TEMCO, LLC	$ 35,000		Obligations by TEMCO under credit agreement	None stated	Credit agreement default	Subrogation against TEMCO	None
TEMCO, LLC	$ 1,000	$ 1,000	Obligations by TEMCO under counterparty agreement	None stated, but may be terminated upon 5 days prior notice in regard to future obligations	Nonpayment	Subrogation against TEMCO	None
Third parties	*	$ 1,000	Surety for, or indemnification of surety for sales contracts between affiliates and sellers of grain under deferred payment contracts	Annual renewal on December 1 in regard to surety for one third party, otherwise none stated and may be terminated by the Company at any time in regard to future obligations	Nonpayment	Subrogation against affiliates	Some or all assets of borrower are held as collateral but might not be sufficient to cover guarantee exposure

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Entities	Guarantee/ Maximum Exposure	Exposure on August 31, 2008	Nature of Guarantee	Expiration Date	Triggering Event	Recourse Provisions	Assets Held as Collateral
	(Dollars in thousands)						
Cofina Financial, LLC	$ 17,502	$ 14,861	Loans to our customers that are originated by Cofina Financial and then sold to ProPartners, which is an affiliate of CoBank	None stated	Credit agreement default	Subrogation against borrower	Some or all assets of borrower are held as collateral but might not be sufficient to cover guarantee exposure
Cofina Financial, LLC	$ 18,200	$ 18,200	Loans made by Cofina Financial to our customers	None stated	Credit agreement default	Subrogation against borrower	Some or all assets of borrower are held as collateral but might not be sufficient to cover guarantee exposure
Agriliance LLC	$ 5,674	$ 5,674	Outstanding letter of credit from CoBank to Agriliance	None stated	Default under letter of credit reimbursement agreement	Subrogation against borrower	None
Agriliance LLC	$ 500	$ 500	Vehicle operating lease obligations of Agriliance	None stated, but may be terminated upon 90 days prior notice in regard to future obligations	Lease agreement default	Subrogation against Agriliance	None
Ag Business segment subsidiaries	$ 5,295		Contribution obligations as a participating employer in the Co-op	None stated	Nonpayment	None	None

	Retirement Plan
$ 41,659	

* The maximum exposure on any given date is equal to the actual guarantees extended as of that date, not to exceed $1.0 million.

Lease Commitments

The Company is committed under operating lease agreements for approximately 2,500 rail cars with remaining terms of one to ten years. In addition, the Company has commitments under other operating leases for various refinery, manufacturing and transportation equipment, vehicles and office space. Some leases include purchase options at not less than fair market value at the end of the lease terms.

Total rental expense for all operating leases, net of rail car mileage credits received from railroad and sublease income, was $58.3 million, $44.3 million and $38.5 million for the years ended August 31, 2008, 2007 and 2006, respectively. Mileage credits and sublease income totaled $3.8 million, $3.9 million and $3.2 million for the years ended August 31, 2008, 2007 and 2006, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Minimum future lease payments, required under noncancellable operating leases as of August 31, 2008 are as follows:

	Rail Cars	Vehicles	Equipment and Other	Total
		(Dollars in thousands)		
2009	$ 11,473	$ 20,581	$ 7,598	$ 39,652
2010	10,875	16,701	6,686	34,262
2011	9,373	9,646	6,295	25,314
2012	6,412	6,687	5,712	18,811
2013	4,276	3,145	3,835	11,256
Thereafter	10,685	559	11,789	23,033
Total minimum future lease payments	$ 53,094	$ 57,319	$ 41,915	$ 152,328

Note 15 Supplemental Cash Flow and Other Information

Additional information concerning supplemental disclosures of cash flow activities for the years ended August 31, 2008, 2007 and 2006 is as follows:

	2008	2007	2006
		(Dollars in thousands)	
Net cash paid (received) during the period for:			
Interest	$ 79,590	$ 52,323	$ 54,228
Income taxes	11,226	(20,274)	(23,724)
Other significant noncash investing and financing transactions:			
Capital equity certificates exchanged for preferred stock	46,364	35,899	23,824
Capital equity certificates issued in exchange for Ag Business properties	4,680	10,132	11,064
Accrual of dividends and equities payable	(325,039)	(374,294)	(249,774)

Note 16 Related Party Transactions

Related party transactions with equity investees as of August 31, 2008 and 2007 and for the years then ended are as follows:

	2008	2007
	(Dollars in thousands)	
Sales	$ 3,451,365	$ 1,639,689
Purchases	1,248,436	1,176,462

Receivables	105,038	50,733
Payables	90,742	111,195

For fiscal 2008, the related party transactions were primarily with TEMCO, LLC (TEMCO), Horizon Milling, LLC, United Harvest, LLC (United Harvest), Ventura Foods and Cofina Financial. For fiscal 2007, the related party transactions were primarily with TEMCO, Horizon Milling, LLC, United Harvest, Ventura Foods, Agriliance and US BioEnergy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 17 Comprehensive Income

The components of comprehensive income, net of taxes, for the years ended August 31, 2008, 2007 and 2006 are as follows:

	2008	2007	2006
	(Dollars in thousands)		
Net income	$ 803,045	$ 756,723	$ 505,391
Pension and other postretirement, net of tax (benefit) expense of ($11,272), ($759) and $282 in 2008, 2007 and 2006, respectively	(17,264)	(1,193)	444
Unrealized net (loss) gain on available for sale investments, net of tax (benefit) expense of ($40,979), $41,722 and $1,138 in 2008, 2007 and 2006, respectively	(64,366)	65,533	1,787
Interest rate hedges, net of tax expense (benefit) of $297, ($65) and $826 in 2008, 2007 and 2006, respectively	465	(102)	1,298
Energy derivative instruments qualified for hedge accounting, net of tax (benefit) expense of ($1,787) and $1,787 in 2007 and 2006, respectively		(2,806)	2,806
Foreign currency translation adjustment, net of tax expense of $56, $588 and $1,142 in 2008, 2007 and 2006, respectively	87	921	1,796
Other comprehensive (loss) income	(81,078)	62,353	8,131
Total comprehensive income	$ 721,967	$ 819,076	$ 513,522

The components of accumulated other comprehensive income, net of taxes, as of August 31, 2008 and 2007 are as follows:

	2008	2007
	(Dollars in thousands)	
Pension and other postretirement, net of tax benefit of $52,153 and $40,881 in 2008 and 2007, respectively	$ (81,540)	$ (64,276)
Unrealized net gain on available for sale investments, net of tax expense of $7,368 and $48,347 in 2008 and 2007, respectively	11,573	75,939
Interest rate hedges, net of tax benefit of $1,101 and $1,397 in 2008 and 2007, respectively	(1,729)	(2,194)
Foreign currency translation adjustment, net of tax expense of $2,327 and $2,271 in 2008 and 2007, respectively	3,654	3,567
Accumulated other comprehensive (loss) income	$ (68,042)	$ 13,036

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Shares

CHS Inc.

8% Cumulative Redeemable Preferred Stock

PROSPECTUS

, 2009

PART II.

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. *Other Expenses of Issuance and Distribution*

SEC Registration Fee	$ 1,965
Accounting Fees and Expenses	$ 13,000
Legal Fees and Expenses	$ 45,000
Printing Fees	$ 50,000
Miscellaneous	$ 5,000
Total	$ 114,965

All fees and expenses other than the SEC registration fee are estimated. The expenses listed above will be paid by CHS.

Item 14. *Indemnification of Directors and Officers*

Section 308A.325 of the Minnesota cooperative law provides that a cooperative may eliminate or limit the personal liability of a director of a cooperative for breach of fiduciary duty as a director in the cooperative s articles of incorporation, provided, however, that the articles may not limit the liability of a director for:

breach of the director s duty of loyalty to the cooperative or its members;

acts or omissions that are not in good faith or involve intentional misconduct or a knowing violation of law;

a transaction from which the director derived an improper personal benefit; or

an act or omission occurring before the date when the provision in the articles eliminating or limiting liability becomes effective.

Article IX of our Articles of Incorporation, as amended to date, eliminates or limits the personal liability of our directors to the greatest extent permissible under Minnesota law.

Article VI of our Bylaws provides that we shall indemnify each person who is or was a director, officer, manager, employee, or agent of this cooperative, and any person serving at the request of this cooperative as a director, officer, manager, employee, or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys fees, judgments, fines, and amounts paid in settlement actually and reasonably incurred to the fullest extent to which such directors, officers, managers, employees or agents of a cooperative may be indemnified under Minnesota law, as amended from time to time.

We maintain directors and officers liability insurance which covers certain liabilities and expenses of our directors and officers and cover us for reimbursement of payments to our directors and officers in respect of such liabilities and expenses.

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Item 16. ***Exhibits and Financial Statement Schedules***

(a)

Exhibit	Description
3.1	Articles of Incorporation of CHS Inc., as amended. (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2006, filed January 11, 2007).
3.2	Bylaws of CHS Inc.(*)
4.1	Resolution Creating a Series of Preferred Equity to be Designated 8% Cumulative Redeemable Preferred Stock. (Incorporated by reference to Amendment No. 1 to our Registration Statement on Form S-2 (File No. 333-101916), dated January 13, 2003).
4.2	Form of Certificate Representing 8% Cumulative Redeemable Preferred Stock. (Incorporated by reference to Amendment No. 2 to our Registration Statement on Form S-2 (File No. 333-101916), dated January 23, 2003).
4.3	Unanimous Written Consent Resolution of the Board of Directors Amending the Amended and Restated Resolution Creating a Series of Preferred Equity to be Designated 8% Cumulative Redeemable Preferred Stock. (Incorporated by reference to Amendment No. 2 to our Registration Statement on Form S-2 (File No. 333-101916), dated January 23, 2003).
4.4	Unanimous Written consent Resolution of the Board of Directors Amending the Amended and Restated Resolution Creating a Series of Preferred Equity to be Designated 8% Cumulative Redeemable Preferred Stock to change the record date for dividends. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2003, filed July 2, 2003).
5.1	Form of Opinion of Dorsey & Whitney LLP Regarding Legality of Securities Being Registered (including consent).(*) (Signed opinion to be filed by amendment)
8.1	Form of Opinion of Dorsey & Whitney LLP Regarding Tax Matters (including consent).(*) (Signed opinion to be filed by amendment)
10.1	Employment Agreement dated November 6, 2003 by and between John D. Johnson and CHS Inc. (Incorporated by reference to our Form 10-K for the year ended August 31, 2003, filed November 21, 2003).
10.1A	Amended and Restated Employment Agreement between John D. Johnson and CHS Inc., effective as of August 1, 2007 (Incorporated by reference to our Current Report on Form 8-K filed August 10, 2007).
10.2	Cenex Harvest States Cooperatives Supplemental Savings Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2000, filed November 22, 2000).
10.2A	Amendment No. 3 to the CHS Inc. Supplemental Savings Plan. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2006, filed July 12, 2006).
10.3	Cenex Harvest States Cooperatives Supplemental Executive Retirement Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2000, filed November 22, 2000).
10.3A	Amendment No. 4 to the CHS Inc. Supplemental Executive Retirement Plan. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2006, filed July 12, 2006).
10.3B	Amendment No. 5 to the CHS Inc. Supplemental Executive Retirement Plan. (Incorporated by reference to our Form 10-Q for the quarterly period ended February 29, 2008, filed April 9, 2008).
10.3C	Amendment No. 6 to the CHS Inc. Supplemental Executive Retirement Plan. (Incorporated by reference to our Form 10-Q for the quarterly period ended February 29, 2008, filed April 9, 2008).
10.3D	Amendment No. 7 to the CHS Inc. Supplemental Executive Retirement Plan.(Incorporated by reference to our Form 10-K for the year ended August 31, 2008, filed November 21, 2008).
10.4	Cenex Harvest States Cooperatives Senior Management Compensation Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2000, filed November 22, 2000).

10.5	Cenex Harvest States Cooperatives Executive Long-Term Variable Compensation Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2000, filed November 22, 2000).
10.6	Cenex Harvest States Cooperatives Share Option Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004).
10.6A	Amendment to Cenex Harvest States Share Option Plan, dated June 28, 2001. (Incorporated by reference to our Registration Statement on Form S-2 (File No. 333-65364), filed July 18, 2001).

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Exhibit	Description
10.6B	Amendment No. 2 to Cenex Harvest States Share Option Plan, dated May 2, 2001. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004).
10.6C	Amendment No. 3 to Cenex Harvest States Share Option Plan, dated June 4, 2002. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004).
10.6D	Amendment No. 4 to Cenex Harvest States Share Option Plan, dated April 6, 2004. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004).
10.7	CHS Inc. Share Option Plan Option Agreement. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004).
10.8	CHS Inc. Share Option Plan Trust Agreement. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004).
10.8A	Amendment No. 1 to the Trust Agreement. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004).
10.9	$225,000,000 Note Agreement (Private Placement Agreement) dated as of June 19, 1998 among Cenex Harvest States Cooperatives and each of the Purchasers of the Notes. (Incorporated by Reference to our Form 10-Q Transition Report for the period June 1, 1998 to August 31, 1998, filed October 14, 1998).
10.9A	First Amendment to Note Agreement ($225,000,000 Private Placement), effective September 10, 2003, among CHS Inc. and each of the Purchasers of the notes. (Incorporated by reference to our Form 10-K for the year ended August 31, 2003, filed November 21, 2003).
10.10	2006 Amended and Restated Credit Agreement (Revolving Loan) by and between CHS Inc. and the Syndication Parties dated as of May 18, 2006. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2006, filed July 12, 2006).
10.10A	First Amendment to 2006 Amended and Restated Credit Agreement by and among CHS Inc., CoBank, ACB and the Syndication Parties, dated May 8, 2007 (Incorporated by reference to our Current Report on Form 8-K filed May 11, 2007).
10.10B	Second Amendment to 2006 Amended and Restated Credit Agreement by and among CHS Inc., CoBank, ACB and the Syndication Parties, dated October 18, 2007. (Incorporated by reference to our Form 10-K for the year ended August 31, 2008, filed November 21, 2008).
10.10C	Third Amendment to 2006 Amended and Restated Credit Agreement by and among CHS Inc., CoBank, ACB and the Syndication Parties, dated March 5, 2008 (Incorporated by reference to our Current Report on Form 8-K filed March 6, 2008).
10.10D	Fourth Amendment to 2006 Amended and Restated Credit Agreement by and among CHS Inc., CoBank, ACB and the Syndication Parties, dated May 1, 2008 (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2008, filed July 10, 2008).
10.11	$200 Million Term Loan Credit Agreement dated as of June 1, 1998 among Cenex Harvest States Cooperatives, CoBank, ACB, and St. Paul Bank for Cooperatives, including Exhibit 2.4 (form of $200 Million Promissory Note). (Incorporated by Reference to our Form 10-Q Transition Report for the period June 1, 1998 to August 31, 1998, filed October 14, 1998).
10.11A	First Amendment to Credit Agreement (Term Loan), effective as of May 31, 1999 among Cenex Harvest States Cooperatives, CoBank, ACB, and St. Paul Bank for Cooperatives. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 1999, filed July 13, 1999).
10.11B	Second Amendment to Credit Agreement (Term Loan) dated May 23, 2000 by and among Cenex Harvest States Cooperatives, CoBank, ACB, St. Paul Bank for Cooperatives and the Syndication Parties. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2000, filed July 10, 2000).
10.11C	Third Amendment to Credit Agreement (Term Loan) dated May 23, 2001 among Cenex Harvest States Cooperatives, CoBank, ACB, and the Syndication Parties. (Incorporated by reference to our Form 10-Q

	for the quarterly period ended May 31, 2001, filed July 3, 2001).
10.11D	Fourth Amendment to Credit Agreement (Term Loan) dated May 22, 2002 among Cenex Harvest States Cooperatives, CoBank, ACB and the Syndication Parties. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2002, filed July 3, 2002).

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Exhibit	Description
10.11E	Fifth Amendment to Credit Agreement (Term Loan) dated May 21, 2003 by and among Cenex Harvest States Cooperatives, CoBank, ACB and the Syndication Parties. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004).
10.11F	Sixth Amendment to Credit Agreement (Term Loan) dated as of May 20, 2004 by and among CHS Inc., CoBank, ACB, and the Syndication Parties. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2004, filed July 12, 2004).
10.11G	Seventh Amendment to Credit Agreement (Term Loan) dated as of May 19, 2005 by and among CHS Inc., CoBank, ACB, and the Syndication Parties. (Incorporated by reference to our form 10-K for the year ended August 31, 2005, filed November 18, 2005).
10.11H	Eighth Amendment to Credit Agreement (Term Loan) dated as of November 18, 2005 by and among CHS Inc., CoBank, ACB, and the Syndication Parties. (Incorporated by reference to our form 10-K for the year ended August 31, 2005, filed November 18, 2005).
10.11I	Ninth Amendment to Credit Agreement (Term Loan) dated as of May 18, 2006 by and among CHS Inc., CoBank, ACB and the Syndication Parties. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2006, filed July 12, 2006).
10.11J	Tenth Amendment to Credit Agreement (Term Loan) dated as of May 8, 2007 by and among CHS Inc. and CoBank, ACB (Incorporated by reference to our Current Report on Form 8-K filed May 11, 2007).
10.12	CHS Inc. Special Supplemental Executive Retirement Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2003, filed November 21, 2003).
10.12A	Amendment No. 1 to the CHS Inc. Special Supplemental Executive Retirement Plan. (Incorporated by reference to our Form 10-Q for the quarterly period ended February 29, 2008, filed April 9, 2008).
10.13	Note purchase and Private Shelf Agreement dated as of January 10, 2001 between Cenex Harvest States Cooperatives and The Prudential Insurance Company of America. (Incorporated by reference to our Form 10-Q for the quarterly period ended February 28, 2001, filed April 10, 2001).
10.13A	Amendment No. 1 to Note Purchase and Private Shelf Agreement, dated as of March 2, 2001. (Incorporated by reference to our Form 10-Q for the quarterly period ended February 28, 2001, filed April 10, 2001).
10.14	Note Purchase Agreement and Series D & E Senior Notes dated October 18, 2002. (Incorporated by reference to our Form 10-K for the year ended August 31, 2002, filed November 25, 2002).
10.15	2003 Amended and Restated Credit Agreement ($15 million, 2 Year Facility) dated December 16, 2003 between CoBank, ACB, U.S. AgBank, FCB and the National Cooperative Refinery Association, Inc. (Incorporated by reference to our Form 10-Q for the quarterly period ended February 29, 2004, filed April 7, 2004).
10.15A	First Amendment to the 2003 Amended and Restated Credit Agreement between the National Cooperative Refinery Association and the Syndication Parties. (Incorporated by reference to our Current Report on Form 8-K filed December 20, 2005).
10.15B	Third Amendment to 2003 Amended and Restated Credit Agreement between National Cooperative Refinery Association and the Syndication Parties (Incorporated by reference to our Current Report on Form 8-K filed December 18, 2006).
10.15C	Fifth Amendment to 2003 Amended and Restated Credit Agreement between National Cooperative Refinery Association and the Syndication Parties (Incorporated by reference to our Registration Statement on Form S-1 (File No. 333-148091), filed December 14, 2007).
10.15D	Sixth Amendment to 2003 Amended and Restated Credit Agreement between National Cooperative Refinery Association and the Syndication Parties.(*)
10.16	Note Purchase and Private Shelf Agreement between CHS Inc. and Prudential Capital Group dated as of April 13, 2004. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31,

	2004, filed July 12, 2004).
10.16A	Amendment No. 1 to Note Purchase and Private Shelf Agreement dated April 9, 2007, among CHS Inc., Prudential Investment Management, Inc. and the Prudential Affiliate parties (Incorporated by reference to our Form 10-Q for the quarterly period ended February 28, 2007, filed April 9, 2007).

Exhibit	Description
10.16B	Amendment No. 2 to Note Purchase and Private Shelf Agreement and Senior Series J Notes totaling $50 million issued February 8, 2008 (Incorporated by reference to our Current Report on Form 8-K filed February 11, 2008).
10.17	Note Purchase Agreement for Series H Senior Notes ($125,000,000 Private Placement) dated September 21, 2004. (Incorporated by reference to our Current Report on Form 8-K filed September 22, 2004).
10.18	Deferred Compensation Plan. (Incorporated by reference to our Registration Statement on Form S-8 (File No. 333-121161), filed December 10, 2004).
10.18A	First Amendment to CHS Inc. Deferred Compensation Plan. (Incorporated by reference to our Registration Statement on Form S-8 (File No. 333-129464), filed November 4, 2005).
10.18B	Second Amendment to CHS Inc. Deferred Compensation Plan. (Incorporated by reference to our Form 10-Q for the quarterly period ended February 29, 2008, filed April 9, 2008).
10.18C	Third Amendment to CHS Inc. Deferred Compensation Plan. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2008, filed July 10, 2008).
10.18D	Fourth Amendment to CHS Inc. Deferred Compensation Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2008, filed November 21, 2008).
10.19	New Plan Participants 2005 Plan Agreement and Election Form for the CHS Inc. Deferred Compensation Plan. (Incorporated by reference to our Registration Statement on Form S-8 (File No. 333-121161), filed December 10, 2004).
10.20	Beneficiary Designation Form for the CHS Inc. Deferred Compensation Plan. (Incorporated by reference to our Registration Statement on Form S-8 (File No. 333-121161), filed December 10, 2004).
10.21	Share Option Plan Participants 2005 Plan Agreement and Election Form. (Incorporated by reference to our Registration Statement on Form S-8 (File No. 333-129464), filed November 4, 2005).
10.22	Amended and Restated Loan and Security Agreement dated August 31, 2006, by and between Provista Renewable Fuels Marketing, LLC and LaSalle Bank National Association (Incorporated by reference to our Form 10-K for the year ended August 31, 2006, filed November 22, 2006).
10.22A	First Amendment to Amended and Restated Loan and Security Agreement by and among Provista Renewable Fuels Marketing, LLC and LaSalle Bank National Association dated January 30, 2007 (Incorporated by reference to our Current Report on Form 8-K filed January 31, 2007).
10.22B	Second Amendment to Amended and Restated Loan and Security Agreement by and among Provista Renewable Fuels Marketing, LLC and LaSalle Bank National Association dated November 2, 2007 (Incorporated by reference to our Current Report on Form 8-K filed November 6, 2007).
10.23	City of McPherson, Kansas Taxable Industrial Revenue Bond Series 2006 registered to National Cooperative Refinery Association in the amount of $325 million (Incorporated by reference to our Current Report on Form 8-K filed December 18, 2006).
10.24	Bond Purchase Agreement between National Cooperative Refinery Association, as purchaser, and City of McPherson, Kansas, as issuer, dated as of December 18, 2006 (Incorporated by reference to our Current Report on Form 8-K filed December 18, 2006).
10.25	Trust Indenture between City of McPherson, Kansas, as issuer, and Security Bank of Kansas City, Kansas City, Kansas, as trustee, dated as of December 18, 2006 (Incorporated by reference to our Current Report on Form 8-K filed December 18, 2006).
10.26	Lease agreement between City of McPherson, Kansas, as issuer, and National Cooperative Refinery Association, as tenant, dated as of December 18, 2006 (Incorporated by reference to our Current Report on Form 8-K filed December 18, 2006).
10.27	Commercial Paper Placement Agreement by and between CHS Inc. and Marshall & Ilsley Bank dated October 30, 2006 (Incorporated by reference to our Form 10-Q for the quarterly period ended

	November 30, 2006, filed January 11, 2007).
10.28	Commercial Paper Dealer Agreement by and between CHS Inc. and SunTrust Capital Markets, Inc. dated October 6, 2006 (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2006, filed January 11, 2007).

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Exhibit	Description
10.29	Note Purchase Agreement ($400,000,000 Private Placement) and Series I Senior Notes dated as of October 4, 2007 (Incorporated by reference to our Current Report on Form 8-K filed October 4, 2007).
10.30	Agreement Regarding Distribution of Assets, by and among CHS Inc., United Country Brands, LLC, Land O Lakes, Inc. and Winfield Solutions, LLC, made as of September 4, 2007. (Incorporated by reference to our Form 10-K for the year ended August 31, 2007, filed November 20, 2007).
10.31	$150 Million Term Loan Credit Agreement by and between CHS Inc., CoBank, ACB and the Syndication Parties dated as of December 12, 2007 (Incorporated by reference to our Registration Statement on Form S-1 (File No. 333-148091), filed December 14, 2007).
10.31A	First Amendment to $150 Million Term Loan Credit Agreement by and between CHS Inc., CoBank, ACB and the Syndication Parties dated as of May 1, 2008 (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2008, filed July 10, 2008).
10.32	Credit Agreement (364-day Revolving Loan) by and between CHS Inc., CoBank, ACB and the Syndication Parties dated as of February 14, 2008 (Incorporated by reference to our Current Report on Form 8-K filed February 15, 2008).
10.32A	First Amendment to Credit Agreement (364-day Revolving Loan) by and between CHS Inc., CoBank, ACB and the Syndication Parties dated as of May 1, 2008 (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2008, filed July, 10 2008).
10.33	$75 Million Uncommitted Demand Facility by and between CHS Europe S.A. and Fortis Bank (Nederland) N.V. dated April 18, 2008 (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2008, filed July 10, 2008).
10.34	$60 Million Uncommitted Trade Finance Facility by and between CHS Europe S.A. and Societe Generale dated June 6, 2008 (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2008, filed July 10, 2008).
10.35	$70 Million Uncommitted Transactional Facility by and between CHS Europe S.A. and BNP Paribas dated July 17, 2008 (Incorporated by reference to our Form 10-K for the year ended August 31, 2008, filed November 21, 2008).
10.36	$50 Million Private Shelf Agreement by and between CHS Inc. and John Hancock Life Insurance Company dated as of August 11, 2008 (Incorporated by reference to our Form 10-K for the year ended August 31, 2008, filed November 21, 2008).
12.1	Statement of Computation of Ratios.(*)
21.1	Subsidiaries of the Registrant (Incorporated by reference to our Form 10-K for the year ended August 31, 2008, filed November 21, 2008).
23.1	Consent of Independent Registered Public Accounting Firm.(*)
24.1	Power of Attorney.(*)
24.2	Power of Attorney for Greg Kruger.(*)

(*) Filed herewith.

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(b)

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

	Balance at Beginning of Year	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions: Write-offs, net of Recoveries	Balance at End of Year
			(Dollars in thousands)		
Allowances for Doubtful Accounts					
2008	$ 62,960	$ 20,691		$ (10,000)	$ 73,651
2007	53,898	12,358		(3,296)	62,960
2006	60,041	11,414		(17,557)	53,898

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Members and Patrons of CHS Inc.:

Our audits of the consolidated financial statements referred to in our report dated November 4, 2008 appearing on page F-1 of this Registration Statement on Form S-1 of CHS Inc. and subsidiaries also included an audit of the financial statement schedule included in Item 16(b) of this Registration Statement on Form S-1. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Minneapolis, Minnesota
November 4, 2008

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Item 17. ***Undertakings***

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant s annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan s annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing this Registration Statement on Form S-1 and has duly caused this Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Inver Grove Heights, State of Minnesota, on December 17, 2008.

CHS Inc.

By: /s/ DAVID KASTELIC
David Kastelic
General Counsel

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the date indicated.

Name	Title	Date
/s/ John D. Johnson John D. Johnson	President and Chief Executive Officer (Principal Executive Officer)	December 17, 2008
/s/ John Schmitz John Schmitz	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	December 17, 2008
/s/ Jodell M. Heller Jodell M. Heller	Vice President and Controller (Principal Accounting Officer)	December 17, 2008
* Michael Toelle	Director and Chairman of the Board	December 17, 2008
* Bruce Anderson	Director	December 17, 2008
* Donald Anthony	Director	December 17, 2008
* Robert Bass	Director	December 17, 2008
*	Director	December 17, 2008

Dennis Carlson

*	Director	December 17, 2008
Curt Eischens		
*	Director	December 17, 2008
Steve Fritel		

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Name	Title	Date
*	Director	December 17, 2008
Jerry Hasnedl		
*	Director	December 17, 2008
David Kayser		
*	Director	December 17, 2008
James Kile		
*	Director	December 17, 2008
Randy Knecht		
*	Director	December 17, 2008
Greg Kruger		
*	Director	December 17, 2008
Michael Mulcahey		
*	Director	December 17, 2008
Richard Owen		
*	Director	December 17, 2008
Steve Riegel		
*	Director	December 17, 2008
Dan Schurr		
*	Director	December 17, 2008
Duane Stenzel		

By: /s/ DAVID KASTELIC

David Kastelic
Attorney in Fact

* Executed pursuant to a power of attorney filed with this Registration Statement