



YES  NO

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K:

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

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

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

The Registrant has no voting or non-voting common equity (the Registrant is a member cooperative).

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: The Registrant has no common stock outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

None.

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PART I.

ITEM 1. BUSINESS

THE COMPANY

CHS Inc. (referred to herein as “CHS,” “we” or “us”) is one of the nation’s leading integrated agricultural companies. As a cooperative, we are owned by farmers and ranchers and their member cooperatives (referred to herein as “members”) across the United States. We also have preferred stockholders that own shares of our 8% Cumulative Redeemable Preferred Stock, which is listed on the NASDAQ Stock Market LLC under the symbol CHSCP. On August 31, 2012, we had 12,272,003 shares of preferred stock outstanding. We buy commodities from and provide products and services to patrons (including our members and other non-member customers), both domestic and international. We provide a wide variety of products and services, from initial agricultural inputs such as fuels, farm supplies, crop nutrients and crop protection products, to agricultural outputs that include grains and oilseeds, grain and oilseed processing and food products. A portion of our operations are conducted through equity investments and joint ventures whose operating results are not fully consolidated with our results; rather, a proportionate share of the income or loss from those entities is included as a component in our net income under the equity method of accounting. For the fiscal year ended August 31, 2012, our total revenues were \$40.6 billion and income attributable to CHS Inc. was \$1.3 billion.

We have aligned our segments based on an assessment of how our businesses operate and the products and services they sell.

Our Energy segment derives its revenues through refining, wholesaling and retailing of petroleum products. Our Ag segment derives its revenues through the origination and marketing of grain, including service activities conducted at export terminals, through the wholesale sales of crop nutrients, from the sales of soybean meal and soybean refined oil and through the retail sales of petroleum and agronomy products, processed sunflowers, feed and farm supplies, and records equity income from investments in our grain export joint venture and other investments. We include other business operations in Corporate and Other because of the nature of their products and services, as well as the relative revenues of those businesses. These businesses primarily include our financing, insurance, hedging and other service activities related to crop production. In addition, our wheat milling and packaged food operations are included in Corporate and Other, as those businesses are conducted through non-consolidated joint ventures.

Many of our business activities are highly seasonal and operating results vary throughout the year. Our income is generally lowest during the second fiscal quarter and highest during the third fiscal quarter. For example, in our Ag segment, our 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. Our grain marketing operations are also 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.

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. Our Board of Directors may establish other qualifications for membership from time to time as it may deem advisable.

Our earnings from cooperative business are allocated to members (and to a limited extent, to non-members with which we have agreed to do business on a patronage basis) based on the volume of business they do with us. We allocate these earnings to our patrons in the form of patronage refunds (which are also called patronage dividends) in cash and patrons' equities (capital equity certificates), which may be redeemed over time solely at the discretion of our Board of Directors. Earnings derived from non-members, which are not allocated patronage, are taxed at federal and state statutory corporate rates and are retained by us as unallocated capital reserve. We also receive patronage refunds from the cooperatives in which we are a member, if those cooperatives have earnings to distribute and if we qualify for patronage refunds from them.

Our origins date back to the early 1930s with the founding of the predecessor companies of Cenex, Inc. and Harvest States Cooperatives. CHS Inc. emerged as the result of the merger of those two entities in 1998, and is headquartered in Inver Grove Heights, Minnesota.

The following table presents a summary of our primary subsidiary holdings and equity investments for each of our

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business segments at August 31, 2012:

Business Segment	Entity Name	Business Activity	CHS Ownership%	Income Recognition
Energy	National Cooperative Refinery Association	Petroleum refining	74.5	% Consolidated
	Front Range Pipeline, LLC	Crude oil transportation	100	% Consolidated
	Cenex Pipeline, LLC	Finished product transportation	100	% Consolidated
Ag	CHS do Brasil Ltda.	Grain procurement and merchandising in Brazil	100	% Consolidated
	TEMCO, LLC	Grain exporter	50	% Equity Method
	CHS Europe S.A.	Grain merchandising in Europe	100	% Consolidated
	CHS Ukraine, LLC	Grain procurement and merchandising in Ukraine	100	% Consolidated
	ACG Trade S.A.	Grain procurement and merchandising in Russia	100	% Consolidated
	CHSINC Iberica S.L.	Grain merchandising in Spain	100	% Consolidated
	CHS de Argentina S.A.	Grain merchandising in Argentina	100	% Consolidated
	CHS Argritrade Bulgaria LTD	Grain procurement and merchandising in Bulgaria	100	% Consolidated
	CHS Argritrade Hungary LTD	Grain procurement and merchandising in Hungary	100	% Consolidated
	CHS Argritrade Romania S.R.L.	Grain procurement and merchandising in Romania	100	% Consolidated
	CHS Serbia D.O.O. Novi Sad	Grain procurement and merchandising in Serbia	100	% Consolidated
	Agromarket, LLC	Grain procurement and merchandising in Russia	100	% Consolidated
	S.C. Silotrans S.R.L.	Romanian grain terminal port facility	96	% Consolidated
	CZL LTD	Grain procurement and merchandising in Japan	51	% Consolidated
	CHS Singapore Trading Company PTE. LTD.	Grain procurement and merchandising in Asia Pacific region	100	% Consolidated
	CHS (Shanghai) Trading Co., Ltd.	Grain merchandising in China	100	% Consolidated
	CHS Israel Protein Foods LTD	Israeli soybean processing and textured soy production facilities	100	% Consolidated
	S.P.E. CHS Plant Extracts LTD	Israeli textured soy production facility	100	% Consolidated
	Solbar Ningbo Food, Ltd.	Chinese textured soy production facility	100	% Consolidated
	Corporate and Other	Ventura Foods, LLC	Food manufacturing and distributing	50
Horizon Milling, LLC		Wheat milling in U.S.	24	% Equity Method
Horizon Milling General Partnership		Wheat milling in Canada	24	% Equity Method
CHS Hedging Inc.		Risk management products broker	100	% Consolidated

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Ag States Agency, LLC	Insurance agency	100	% Consolidated
CHS Capital, LLC	Finance company	100	% Consolidated

Our segment and international sales information in Note 11 of the Notes to Consolidated Financial Statements, as well as Item 6 of this Annual Report on Form 10-K, are incorporated by reference into the following segment descriptions.

The segment financial information presented below may not represent the results that would have been obtained had the relevant segment been operated as an independent business due to efficiencies in scale, corporate cost allocations and intersegment activity.

### ENERGY

#### Overview

We are the nation's largest cooperative energy company based on revenues and identifiable assets, with operations that include petroleum refining and pipelines; the supply, marketing (including ethanol and biodiesel) and distribution of refined fuels (gasoline, diesel fuel and other energy products); the blending, sale and distribution of lubricants; and the wholesale supply of propane. Our Energy segment processes crude oil into refined petroleum products at refineries in Laurel, Montana (wholly-owned) and McPherson, Kansas (an entity in which we have an approximate 79.2% ownership interest as of September 1, 2012) and sells those products under the Cenex<sup>®</sup> brand to member cooperatives and others through a network of approximately 1,350 independent retail sites, of which 75% are convenience stores marketing Cenex<sup>®</sup> branded fuels. For fiscal 2012, our Energy revenues, after elimination of inter-segment revenues, were \$12.3 billion and were primarily from gasoline and diesel fuel.

#### Operations

Laurel Refinery. Our Laurel, Montana refinery processes medium and high sulfur crude oil into refined petroleum products that primarily include gasoline, diesel fuel, petroleum coke and asphalt. Our Laurel refinery sources approximately

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85% of its crude oil supply from Canada, with the balance obtained from domestic sources, and we have access to Canadian and northwest Montana crude through our wholly-owned Front Range Pipeline, LLC and other common carrier pipelines. Our Laurel refinery also has access to Wyoming crude via common carrier pipelines from the south.

Our Laurel facility processes approximately 55,000 barrels of crude oil per day to produce refined products that consist of approximately 43% gasoline, 37% diesel fuel and other distillates, 6% petroleum coke, and 12% asphalt and other products. Refined fuels produced at Laurel are available via the Yellowstone Pipeline to western Montana terminals and to Spokane and Moses Lake, Washington, south via common carrier pipelines to Wyoming terminals and Denver, Colorado, and east via our wholly-owned Cenex Pipeline, LLC to Glendive, Montana, and Minot and Fargo, North Dakota.

McPherson Refinery. The McPherson, Kansas refinery is owned and operated by National Cooperative Refinery Association (NCRA), of which we owned approximately 74.5% as of August 31, 2012. Our ownership increased to approximately 79.2% in September 2012 upon the first closing under our November 2011 agreement to purchase the noncontrolling interests in NCRA. See Note 17, Acquisitions for additional information. The McPherson refinery processes approximately 79% low and medium sulfur crude oil and 21% heavy sulfur crude oil into gasoline, diesel fuel and other distillates, propane and other products. NCRA sources its crude oil through its own pipelines as well as common carrier pipelines. The low and medium sulfur crude oil is sourced from Kansas, North Dakota, Oklahoma and Texas, and the heavy sulfur crude oil is sourced from Canada.

The McPherson refinery processes approximately 85,000 barrels of crude oil per day to produce refined products that consist of approximately 50% gasoline, 44% diesel fuel and other distillates, and 6% propane and other products. Approximately 32% of the refined fuels are loaded into trucks at the McPherson refinery or shipped via NCRA's proprietary products pipeline to its terminal in Council Bluffs, Iowa. The remaining refined fuel products are shipped to other markets via common carrier pipelines.

Renewable Fuels Marketing. Our renewable fuels marketing business markets and distributes ethanol and biodiesel products throughout the United States and overseas by contracting with ethanol and biodiesel production plants to market and distribute their finished products.

Other Energy Operations. We own and operate a propane terminal, four asphalt terminals, seven refined product terminals and three lubricants blending and packaging facilities. We also own and lease a fleet of liquid and pressure trailers and tractors, which are used to transport refined fuels, propane, anhydrous ammonia and other products.

### Products and Services

Our Energy segment produces and sells (primarily wholesale) gasoline, diesel fuel, propane, asphalt, lubricants and other related products and provides transportation services. We obtain the petroleum products that we sell from our Laurel and McPherson refineries, and from third parties. For fiscal 2012, we obtained approximately 58% of the refined products we sold from our Laurel and McPherson refineries, and approximately 42% from third parties.

### Sales and Marketing; Customers

We make approximately 77% of our refined fuel sales to members, with the balance sold to non-members. Sales are made wholesale to member cooperatives and through a network of independent retailers that operate convenience stores under the Cenex tradename. We sold approximately 1.2 billion gallons of gasoline and approximately 1.8 billion gallons of diesel fuel in fiscal 2012, excluding NCRA's sales to minority owners and others totaling approximately 349 million gallons. We also blend, package and wholesale auto and farm machinery lubricants to both

members and non-members. We are one of the nation's largest propane wholesalers based on revenues. Most of the propane sold in rural areas is for heating and agricultural usage. Annual sales volumes of propane vary greatly depending on weather patterns and crop conditions.

#### Industry; Competition

The petroleum business is highly cyclical. Demand for crude oil and energy products is driven by the condition of local and worldwide economies, local and regional weather patterns and taxation relative to other energy sources, which can significantly affect the price of refined fuel products. Most of our energy product market is located in rural areas, so sales activity tends to follow the planting and harvesting cycles. More fuel-efficient equipment, reduced crop tillage, depressed prices for crops, weather conditions and government programs which encourage idle acres, may all reduce demand for our energy products.

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Regulation. Governmental regulations and policies, particularly in the areas of taxation, energy and the environment, have a significant impact on our Energy segment. Our Energy segment's operations are subject to laws and related regulations and rules designed to protect the environment that are administered by the Environmental Protection Agency (EPA), the Department of Transportation (DOT) and similar government agencies. These laws, regulations and rules govern the discharge of materials to the environment, air and water; reporting storage of hazardous wastes; the transportation, handling and disposition of wastes; and the labeling of pesticides and similar substances. Failure to comply with these laws, regulations and rules could subject us (and, in the case of the McPherson refinery, NCRA) to administrative penalties, injunctive relief, civil remedies and possible recalls of products. We believe that we and NCRA are in compliance with these laws, regulations and rules in all material respects and do not expect continued compliance to have a material effect on capital expenditures, earnings or competitive position, of either us or NCRA.

Like many other refineries, our Energy segment's refineries recently focused their capital spending on reducing pollution emissions and, at the same time, increasing production to help pay for those expenditures. In particular, our refineries have completed work to comply with the EPA low sulfur fuel regulations that were required by 2006, which lowered the sulfur content of gasoline and diesel fuel. The EPA also passed a regulation that required 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 have incurred capital expenditures to reduce the current gasoline benzene levels to meet the new regulated levels. Our combined capital expenditures for benzene removal for our Laurel, Montana refinery and the NCRA refinery in McPherson, Kansas were approximately \$95.0 million for the projects. Approximately \$19.0 million and \$43.0 million of expenditures were incurred during our fiscal years ended August 31, 2011 and 2010, respectively. Both refineries were producing gasoline within the regulated benzene levels as of January 2011.

Competition. The petroleum refining and wholesale fuels business is very competitive. Among our competitors are some of the world's largest integrated petroleum companies, which have their own crude oil supplies, distribution and marketing systems. We also compete with smaller domestic refiners and marketers in the midwestern and northwestern United States, with foreign refiners who import products into the United States and with producers and marketers in other industries supplying other forms of energy and fuels to consumers. Given the commodity nature of the end products, profitability in the refining and marketing industry depends largely on margins, as well as operating efficiency, product mix and costs of product distribution and transportation. The retail gasoline market is highly competitive, with much larger competitors that have greater brand recognition and distribution outlets throughout the country and the world. Our owned and non-owned retail outlets are located primarily in the northwestern, midwestern and southern United States.

We market refined fuels, motor gasoline and distillate products in five principal geographic areas. The first area includes the midwest and northern plains. Competition at the wholesale level in this area includes major oil companies, including Phillips, Valero and BP Amoco; independent refiners, including Flint Hills Resources and CVR Energy; and wholesale brokers/suppliers, including Western Petroleum Company. This area has a robust spot market and is influenced by the large refinery center along the gulf coast. The majority of the product moved in this market is shipped on the Magellan and NuStar pipeline systems.

To the east of the midwest and northern plains is another unique marketing area. This area centers near Chicago, Illinois and includes eastern Wisconsin, Illinois and Indiana. CHS principally competes with the major oil companies Marathon, BP Amoco, ExxonMobil and Citgo; independent refineries, including Flint Hills Resources; and wholesale brokers/suppliers, including U.S. Oil.

Another market area is located south of Chicago, Illinois. Most of this area includes Arkansas, Missouri and the northern part of Texas. Competition in this area includes the major oil companies Phillips, Valero and ExxonMobil and independent refiners, including Delek US Holdings. This area is principally supplied from the Gulf coast refinery

center and is also driven by a strong spot market that reacts quickly to changes in the international and national supply balance.

Another geographic area includes Montana, western North Dakota, Wyoming, Utah, Idaho, Colorado and western South Dakota. Competition at the wholesale level in this area includes the major oil companies ExxonMobil and Phillips and independent refiners, including HollyFrontier Corporation and Sinclair Oil Corporation. This area is also noted for being fairly well balanced in demand and supply, but has in recent times been impacted by the large growth of demand from the Bakken crude activity in this region.

The last area includes much of Washington and Oregon. We compete with the major oil companies Phillips, Tesoro, BP Amoco and Chevron in this area. This area is also known for volatile prices and an active spot market.

#### Summary Operating Results

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Summary operating results and identifiable assets for our Energy segment for the fiscal years ended August 31, 2012, 2011 and 2010 are shown below:

	2012	2011	2010
	(Dollars in thousands)		
Revenues	\$12,816,542	\$11,467,381	\$8,799,890
Cost of goods sold	11,514,463	10,694,687	8,437,504
Gross profit	1,302,079	772,694	362,386
Marketing, general and administrative	155,786	142,708	123,834
Operating earnings	1,146,293	629,986	238,552
Loss (gain) on investments	4,008	1,027	(269 )
Interest, net	122,302	5,829	9,939
Equity income from investments	(7,537 )	(6,802 )	(5,554 )
Income before income taxes	\$1,027,520	\$629,932	\$234,436
Intersegment revenues	\$(467,583 )	\$(383,389 )	\$(295,536 )
Total identifiable assets at period end	\$3,684,571	\$3,883,205	\$3,004,471

## AG

Our Ag segment includes crop nutrients, country operations, grain marketing and processing and food ingredients. Our revenues in our Ag segment primarily include grain sales, which were \$20.6 billion for fiscal 2012 after elimination of inter-segment revenues.

## Crop Nutrients

## Overview

Our North America wholesale crop nutrients business is one of the largest wholesale fertilizer businesses in the U.S. based on tons sold and accounts for approximately 11% of the U.S. market. Tons sold include sales to our country operations business. There is significant seasonality in the sale of agronomy products and services, with peak activity coinciding with the planting seasons. There is also significant volatility in the prices for the crop nutrient products we purchase and sell.

## Operations

Products are delivered directly to the customer from the manufacturer or through our 16 inland or river warehouse terminals and other non-owned storage facilities located throughout the country. In addition, to supplement what is purchased domestically, our Galveston, Texas deep water port and terminal receives fertilizer by vessel from originations such as the Middle East and Caribbean basin where significant volumes of urea are produced. The fertilizer is then shipped by rail to destinations within crop producing regions of the country.

Primary suppliers for our wholesale crop nutrients business include CF Industries, Potash Corporation of Saskatchewan, Mosaic Company, Koch Industries and Petrochemical Industries Company (PIC) in Kuwait.

## Products and Services

Our wholesale crop nutrients business purchases and sells nitrogen (ammonia, UAN and Urea), phosphate and potash based products.

Sales and Marketing; Customers

Our wholesale crop nutrients business sells to local retailers from New York to the west coast and from the Canadian border to Texas. Our largest customer is our own country operations business, which is also included in our Ag segment. Many of the customers of our crop nutrients business are also customers of our Energy segment or suppliers to our grain marketing business.

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### Industry; Competition

**Regulation.** Our wholesale crop nutrients operations are subject to laws and related regulations and rules designed to protect the environment that are administered by the EPA, the DOT and similar government agencies. These laws, regulations and rules govern the discharge of materials to the environment, air and water; reporting storage of hazardous wastes; the transportation, handling and disposition of wastes; and the labeling of pesticides and similar substances. Failure to comply with these laws, regulations and rules could subject us to administrative penalties, injunctive relief, civil remedies and possible recalls of products. We believe that we are in compliance with these laws, regulations and rules in all material respects and do not expect continued compliance to have a material effect on our capital expenditures, earnings or competitive position.

**Competition.** The wholesale distribution of crop nutrients products is highly competitive and dependent upon relationships with local cooperatives and private retailers, proximity to the customer and competitive pricing. We compete with other large agronomy distributors, as well as other regional or local distributors, retailers and manufacturers. Major competitors in crop nutrients distribution include Agrium, CF Industries, Gavilon, Koch Industries, and a variety of traders and brokers.

### Country Operations

#### Overview

Our country operations business purchases a variety of grains from our producer members and other third parties, and provides cooperative members and customers with access to a full range of products, programs and services for production agriculture. Country operations operates 402 locations through 69 business units, the majority of which have local producer boards dispersed throughout Colorado, Idaho, Illinois, Iowa, Kansas, Minnesota, Montana, Nebraska, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Michigan and Washington. Most of these locations purchase grain from farmers and sell agronomy, energy, feed and seed products to those same producers and others, although not all locations provide every product and service.

#### Products and Services

**Grain Purchasing.** We are one of the largest country elevator operators in North America based on revenues. Through a majority of our locations, our country operations business units purchase grain from member and non-member producers and other elevators and grain dealers. Most of the grain purchased is sold through our grain marketing operations, used for livestock feed production or sold to other processing companies. For the year ended August 31, 2012, country operations purchased approximately 570 million bushels of grain, primarily wheat, corn and soybeans. Of these bushels, 543 million were purchased from members and 330 million were sold through our grain marketing operations.

**Other Products.** Our country operations business units manufacture and sell other products, both directly and through ownership interests in other entities. These include seed, crop nutrients, crop protection products, energy products, animal feed, animal health products and processed sunflower products.

### Industry; Competition

**Regulation.** Our country operations business is subject to laws and related regulations and rules designed to protect the environment that are administered by the EPA, the DOT and similar government agencies. These laws, regulations and rules govern the discharge of materials to the environment, air and water; reporting storage of hazardous wastes;

the transportation, handling and disposition of wastes; and the labeling of pesticides and similar substances. Our country operations business is also subject to laws and related regulations and rules administered by the United States Department of Agriculture (USDA), the United States Food and Drug Administration (FDA), and other federal, state, local and foreign governmental agencies that govern the processing, packaging, storage, distribution, advertising, labeling, quality and safety of feed and grain products. Failure to comply with these laws, regulations and rules could subject us to administrative penalties, injunctive relief, civil remedies and possible recalls of products. We believe that we are in compliance with these laws, regulations and rules in all material respects and do not expect continued compliance to have a material effect on our capital expenditures, earnings or competitive position.

Competition. We compete primarily on the basis of price, services and patronage. Competitors for the purchase of grain include Archer Daniels Midland (ADM), Cargill, Incorporated (Cargill), local cooperatives, private grain companies and processors at the majority of our locations in our trade territory, as previously defined in the “Overview.” In addition, Columbia Grain and Gavilon are also our competitors.

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Competitors for our farm supply businesses include Cargill, Agrium, Simplot, Helena, Wilbur Ellis, local cooperatives and smaller private companies at the majority of locations throughout our trade territory. In addition, Land O'Lakes Purina Feed, Hubbard Milling, ADM and Cargill are our major competitors for the sale of feed products.

### Grain Marketing

#### Overview

We are the nation's largest cooperative marketer of grain and oilseed based on grain storage capacity and grain sales, handling over 2.0 billion bushels annually. During fiscal 2012, we purchased approximately 54% of our total grain volumes from individual and cooperative association members and our country operations business, with the balance purchased from third parties. We arrange for the transportation of the grains either directly to customers or to our owned or leased grain terminals and elevators awaiting delivery to domestic and foreign purchasers. We primarily conduct our grain marketing operations directly, but do conduct some of our business through TEMCO, LLC (TEMCO), a 50% joint venture with Cargill.

#### Operations

Our grain marketing operations purchases grain directly and indirectly from agricultural producers primarily in the midwestern and western United States. The purchased grain is typically contracted for sale for future delivery at a specified location, and we are responsible for handling the grain and arranging for its transportation to that location. The sale of grain is recorded after title to the commodity has transferred and final weights, grades and settlement price have been agreed upon. Amounts billed to the customer as part of a sales transaction include the costs for shipping and handling. Our ability to arrange efficient transportation, including loading capabilities onto unit trains, ocean-going vessels and barges, is a significant part of the services we offer to our customers. Rail, vessel, barge and truck transportation is carried out by third parties, often under long-term freight agreements with us. Grain intended for export is usually shipped by rail or barge to an export terminal, where it is loaded onto ocean-going vessels. Grain intended for domestic use is usually shipped by rail or truck to various locations throughout the country.

We own and operate export terminals, river terminals and elevators involved in the handling and transport of grain. Our river terminals are used to load grain onto barges for shipment to both domestic and export customers via the Mississippi River system. These river terminals are located at Savage and Winona, Minnesota and Davenport, Iowa, as well as terminals in which we have put-through agreements located at St. Louis, Missouri and Beardstown and Havana, Illinois. Our export terminal at Superior, Wisconsin provides access to the Great Lakes and St. Lawrence Seaway, and our export terminal at Myrtle Grove, Louisiana serves the Gulf of Mexico market. In the Pacific Northwest, we conduct our grain marketing operations through TEMCO which operates export terminals in Tacoma, Washington; Kalama, Washington; and Portland, Oregon and primarily exports wheat, corn and soybeans. These facilities serve the Pacific market, as well as domestic grain customers in the western United States. We also own two 110-car shuttle-receiving elevator facilities in Friona, Texas and Collins, Mississippi that serve large-scale feeder cattle, dairy and poultry producers in those regions.

In 2003, we opened an office in Sao Paulo, Brazil for the procurement of soybeans for our grain marketing operations' international customers. This business has expanded its operations into the procurement and marketing of multiple commodities, including fertilizers. During fiscal 2007, we invested in a Brazil-based joint venture, Multigrain AG (Multigrain). During the year ended August 31, 2011, we sold our 45% ownership interest in Multigrain to one of our joint venture partners, Mitsui & Co., Ltd. (Mitsui), for \$225.0 million and recognized a pre-tax gain of \$119.7 million from the sale. During fiscal 2012, we used some of the proceeds from the transaction for other investment opportunities in South America and we intend to use the balance of the proceeds for additional investments.

We have opened additional international offices between fiscal 2007 and 2012 throughout the world. These include offices and operations in Europe, South America, the Black Sea and Mediterranean Basin regions and the Asia-Pacific region.

For sourcing and marketing grains and oilseeds through the Black Sea and Mediterranean Basin regions to customers worldwide we have offices in Geneva, Switzerland; Barcelona, Spain; Kiev, Ukraine; Novorossiysk, Russia; Budapest, Hungary; Novi Sad, Serbia; Bucharest, Romania; Sofia, Bulgaria; and a marketing office in Amman, Jordan. With the Agri Point acquisition in fiscal 2011, we have a deep water port in Constanta, Romania, a barge loading facility on the Danube River in Giurgiu, Romania, and an inland grain terminal at Oroshaza, Hungary. In addition, we own three grain transshipment points in Russia and we have an investment in a port facility in Odessa, Ukraine. In the Pacific Rim area, we have offices in Singapore; Seoul, South Korea; Hong Kong; and Shanghai, China that serve customers receiving grains and oilseeds from our origination points in North America, South America and the Black Sea Regions. In South America we have grain

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merchandising offices to source grains in Sao Paulo, Brazil and Buenos Aires, Argentina. Finally, we sell and market crop nutrients from our Geneva, Switzerland; Sao Paulo, Brazil; and Buenos Aires, Argentina offices.

Our grain marketing operations may have significant working capital needs, at any time, depending on commodity prices and other factors. The amount of borrowings for this purpose, and the interest rate charged on those borrowings, directly affects the profitability of our grain marketing operations.

### Products and Services

Our grain marketing operations purchased approximately 2.0 billion bushels of grain during the year ended August 31, 2012, which primarily included corn, soybeans, wheat and distillers dried grains with solubles (DDGS). Of the total grains purchased by our grain marketing operations, 729 million bushels were from our individual and cooperative association members, 330 million bushels were from our country operations business and the remainder was from third parties.

### Sales and Marketing; Customers

Purchasers of our grain and oilseed include domestic and foreign millers, maltsters, feeders, crushers and other processors. To a much lesser extent, purchasers include intermediaries and distributors. Our grain marketing operations are not dependent on any one customer, and its supply relationships call for delivery of grain at prevailing market prices.

### Industry; Competition

**Regulation.** Our grain marketing operations are subject to laws and related regulations and rules designed to protect the environment that are administered by the EPA, the DOT and similar government agencies. These laws, regulations and rules govern the discharge of materials to the environment, air and water; reporting storage of hazardous wastes; and the transportation, handling and disposition of wastes. Our grain marketing operations are also subject to laws and related regulations and rules administered by the USDA, the FDA, and other federal, state, local and foreign governmental agencies that govern the processing, packaging, storage, distribution, advertising, labeling, quality and safety of food and grain products. Failure to comply with these laws, regulations and rules could subject us to administrative penalties, injunctive relief, civil remedies and possible recalls of products. We believe that we are in compliance with these laws, regulations and rules in all material respects and do not expect continued compliance to have a material effect on our capital expenditures, earnings or competitive position.

**Competition.** Our grain marketing operations compete for both the purchase and the sale of grain. Competition is intense and margins are low. Some competitors are integrated food producers, which may also be customers. A few major competitors have substantially greater financial resources than us.

In the purchase of grain from producers, location of a delivery facility is a prime consideration, but producers are increasingly willing to transport grain longer distances for sale. Price is affected by the capabilities of the facility; for example, if it is cheaper to deliver to a customer by unit train than by truck, a facility with unit train capabilities provides a price advantage. We believe that our relationships with individual members serviced by our local country operations locations and with our cooperative members give us a broad origination capability.

Our grain marketing operations compete for grain sales based on price, services and ability to provide the desired quantity and quality of grains. Location of facilities is a major factor in the ability to compete. Our grain marketing operations compete with numerous grain merchandisers, including major grain merchandising companies such as

ADM, Cargill, Bunge, Glencore, Noble, Marubeni and Louis Dreyfus, each of which handles significant grain volumes.

The results of our grain marketing operations may be adversely affected by relative levels of supply and demand, both domestic and international, commodity price levels (including grain prices reported on national markets) and transportation costs and conditions. Supply is affected by weather conditions, disease, insect damage, acreage planted and government regulations and policies. Demand may be affected by foreign governments and their programs, relationships of foreign countries with the United States, the affluence of foreign countries, acts of war, currency exchange fluctuations and substitution of commodities. Demand may also be affected by changes in eating habits, population growth, the level of per capita consumption of some products and the level of renewable fuels production.

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### Processing and Food Ingredients

#### Overview

Our Processing and Food Ingredients business operates globally and converts soybeans into soybean meal, soyflour, crude soybean oil, refined soybean oil and associated by-products. We then further process soyflour for use in the food/snack industry.

#### Operations

Our processing operations are conducted at facilities in Mankato, Minnesota; Fairmont, Minnesota; Creston, Iowa; and Ashdod, Israel that can crush approximately 107 million bushels of soybeans on an annual basis, producing approximately 2.5 million short tons of soybean meal/soyflour and 1.2 billion pounds of crude soybean oil. We also have operations in Ashdod, Israel; Hutchinson, Kansas; Ningbo, China; and South Sioux City, Nebraska where we further process soyflour for use in the food/snack industry.

#### Products and Services

Our processing operations produce three primary products: refined oils, soybean meal and soyflour. Refined oils are used in processed foods, such as margarine, shortening, salad dressings and baked goods, as well as methyl ester/biodiesel production, and to a lesser extent, for certain industrial uses such as plastics, inks and paints. Soybean meal has high protein content and is used for feeding livestock. Soyflour is used in the baking industry, as a milk replacement in animal feed and in industrial applications. Soyflour is processed further to produce textured concentrates and isolates used in the food/snack industry. We produce approximately 162 thousand tons of soyflour annually and approximately 45% is further processed at our protein manufacturing facilities.

Our domestic soy processing facilities are located in areas with a strong production base of soybeans and end-user market for the meal and soyflour. We purchase our soybeans from members, global offices and third parties with a tight integrated connection with our Grain Marketing division. Our crushing operations currently produce approximately 95% of the crude soybean oil that we refine, and purchase the balance from outside suppliers.

Soybeans are a commodity and their price can fluctuate significantly depending on production levels, demand for the products and other supply factors.

#### Sales and Marketing; Customers

Our customers for refined oil are principally large food product companies. Our largest customer for refined oil products is Ventura Foods, LLC (Ventura Foods), in which we hold a 50% ownership interest and with which we have a long-term supply agreement to supply edible soybean oils as long as we maintain a minimum 25.5% ownership interest and our price is competitive with other suppliers of the product. We primarily sell soymeal to feed lots and feed mills and soyflour to customers in the baking industry.

#### Industry; Competition

The refined soybean products industry is highly competitive. Major industry competitors include ADM, Cargill, Ag Processing Inc. and Bunge. These and other competitors have acquired other processors, expanded existing plants or constructed new plants, both domestically and internationally. Price, transportation costs, services and product quality drive competition. We estimate that we have a market share of approximately 4% to 5% of the domestic refined

soybean oil and also the domestic soybean crushing capacity. We are a relatively small participant in the protein food business, competing with ADM, Solae and Cargill.

Regulation. Our processing and food ingredients operations are subject to laws and related regulations and rules designed to protect the environment that are administered by the EPA, the Department of Transportation and similar government agencies. These laws, regulations and rules govern the discharge of materials to environment, air and water; reporting storage of hazardous wastes; and the transportation, handling and disposition of wastes. Our Processing segment's operations are also subject to laws and related regulations and rules administered by the United States Department of Agriculture, the United States Food and Drug Administration, and other federal, state, local and foreign governmental agencies that govern the processing, packaging, storage, distribution, advertising, labeling, quality and safety of food and grain products. Failure to comply with these laws, regulations and rules could subject us, or our foods partners, to administrative penalties,

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injunctive relief, civil remedies and possible recalls of products. We believe that we are in compliance with these laws, regulations and rules in all material respects and do not expect continued compliance to have a material effect on our capital expenditures, earnings or competitive position.

## Summary Operating Results

Summary operating results and identifiable assets for our Ag segment for the fiscal years ended August 31, 2012, 2011 and 2010 are shown below:

	2012	2011	2010
	(Dollars in thousands)		
Revenues	\$28,181,445	\$25,767,033	\$16,715,055
Cost of goods sold	27,544,040	25,204,301	16,258,679
Gross profit	637,405	562,732	456,376
Marketing, general and administrative	273,757	229,369	187,640
Operating earnings	363,648	333,363	268,736
Loss (gain) on investments	1,049	(118,344	) (421
Interest, net	57,915	57,438	33,039
Equity income from investments	(22,737	) (40,482	) (31,248
Income before income taxes	\$327,421	\$434,751	\$267,366
Total identifiable assets — August 31	\$6,816,809	\$5,276,537	\$3,847,518

## CORPORATE AND OTHER

## Business Solutions

**Financial Services.** We have provided open account financing to approximately 100 of our members that are cooperatives (cooperative association members) in the past year. These arrangements involve the discretionary extension of credit in the form of a clearing account for settlement of grain purchases and as a cash management tool.

**CHS Capital, LLC.** CHS Capital, LLC (CHS Capital), a finance company formed in fiscal 2005, makes seasonal and term loans to member cooperatives and individual producers.

**CHS Hedging Inc.** Our wholly-owned subsidiary, CHS Hedging Inc., is a registered Futures Commission Merchant and a clearing member of both the Minneapolis Grain Exchange and the Kansas City Board of Trade. In October 2012, CHS Hedging's name was changed from Country Hedging, Inc. CHS Hedging provides full-service commodity risk management brokerage and consulting services to its customers, primarily in the areas of agriculture and energy.

**Ag States Group.** Our wholly-owned subsidiary, Ag States Agency, LLC, is a full-service independent insurance agency. It sells all lines of insurance, including property and casualty, group benefits and surety bonds. Its approximately 1,800 customers are primarily agribusinesses, including cooperatives and independent elevators, energy, agronomy, feed and seed plants, implement dealers and food processors. Impact Risk Funding, Inc. PCC, (IRF) a wholly-owned subsidiary of Ag States Agency, LLC, was incorporated as a protected cell captive insurer in the District of Columbia in July 2010. IRF was created as an insurance entity to provide alternative risk financing options for customers.

## Wheat Milling

In January 2002, we formed a joint venture with Cargill named Horizon Milling, LLC (Horizon Milling), in which we hold an ownership interest of 24%, with Cargill owning the remaining 76%. Horizon Milling is the largest U.S. wheat miller based on output volume. We own five mills that we lease to Horizon Milling. During fiscal 2012, 2011 and 2010, we invested \$3.0 million, \$3.1 million and \$2.1 million, respectively, in Horizon Milling. Sales and purchases of wheat and durum by us to Horizon Milling during fiscal 2012 were \$426.3 million and \$22.5 million, respectively. Horizon Milling's advance payments on grain to us were \$11.4 million on August 31, 2012, and are included in customer advance payments on our Consolidated Balance Sheet. We account for Horizon Milling using the equity method of accounting and on August 31, 2012, our investment was \$78.4 million. On August 31, 2012, our net book value of assets leased to Horizon Milling was \$49.6 million.

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During fiscal 2007, we formed Horizon Milling G.P. (24% CHS ownership with Cargill owning the remaining 76%), a joint venture that acquired a Canadian grain-based foodservice and industrial business, which includes two flour milling operations and two dry baking mixing facilities in Canada. During fiscal 2010, we invested \$0.4 million in Horizon Milling G.P. We account for the investment using the equity method of accounting, and on August 31, 2012, our investment was \$16.7 million.

Foods

Our primary focus in the foods area is Ventura Foods, LLC (Ventura Foods) which produces and distributes vegetable oil-based products such as margarine, salad dressing and other food products. Ventura Foods was created in 1996, and is owned 50% by us and 50% by Wilsey Foods, Inc., a majority owned subsidiary of Mitsui. We account for our Ventura Foods investment under the equity method of accounting, and on August 31, 2012, our investment was \$292.4 million.

Ventura Foods manufactures, packages, distributes and markets bulk margarine, salad dressings, mayonnaise, salad oils, syrups, soup bases and sauces, many of which utilize soybean oil as a primary ingredient. Approximately 40% of Ventura Foods' volume, based on sales, comes from products for which Ventura Foods owns the brand, and the remainder comes from products that it produces for third parties. A variety of Ventura Foods' product formulations and processes are proprietary to it or its customers. Ventura Foods is the largest manufacturer of margarine for the foodservice sector in the U.S. and is a major producer of many other products.

Ventura Foods currently has 11 manufacturing and distribution locations across the United States. Ventura Foods sources its raw materials, which consist primarily of soybean oil, canola oil, palm/coconut oil, peanut oil and other ingredients and supplies, from various national and overseas suppliers, including our oilseed processing operations. It sells the products it manufactures to third parties as a contract manufacturer, as well as directly to retailers, food distribution companies and large institutional food service companies. Ventura Foods sales are approximately 60% in foodservice and the remainder is split between retail and industrial customers who use edible oil products as ingredients in foods they manufacture for resale. During Ventura Foods' 2012 fiscal year, Sysco accounted for 23% of its net sales.

Ventura Foods competes with a variety of large companies in the food manufacturing industry. Major competitors include ADM, Cargill, Bunge, Unilever, ConAgra, Stratas Foods LLC, Smuckers, Kraft and CF Sauer, Ken's, Marzetti and Nestle.

Agriliance, LLC

Agriliance LLC (Agriliance) is owned and governed by CHS (50%) and Land O'Lakes, Inc. (50%). We account for our Agriliance investment, using the equity method of accounting, within Corporate and Other. Prior to Sep