CHS INC
Form 10-Q
July 12, 2007

Table of Contents

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

for the quarterly period ended May 31, 2007.

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

for the transition period from _____to _____.

Commission File Number 0-50150

CHS Inc.
(Exact name of registrant as specified in its charter)

Minnesota	**41-0251095**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*
5500 Cenex Drive **Inver Grove Heights, MN 55077**	**(651) 355-6000**
(Address of principal executive offices, including zip code)	*(Registrant s telephone number, including area code)*

Include 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer þ

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO þ

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

Number of Shares Outstanding at

Class	May 31, 2007
NONE	NONE

INDEX

		Page No.
	PART I. FINANCIAL INFORMATION	
Item 1.	Financial Statements (unaudited)	3
	Consolidated Balance Sheets as of May 31, 2007, August 31, 2006 and May 31, 2006	3
	Consolidated Statements of Operations for the three months and nine months ended May 31, 2007 and 2006	4
	Consolidated Statements of Cash Flows for the nine months ended May 31, 2007 and 2006	5
	Notes to Consolidated Financial Statements	6
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	41
Item 4.	Controls and Procedures	41
	PART II. OTHER INFORMATION	
Item 6.	Exhibits	42
SIGNATURE PAGE		43

Section 302 Certification
Section 302 Certification
Section 1350 Certification
Section 1350 Certification

Table of Contents

PART I. FINANCIAL INFORMATION

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve risks and uncertainties that may cause the Company s actual results to differ materially from the results discussed in the forward-looking statements. These factors include those set forth in Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations, under the caption Cautionary Statement Regarding Forward-Looking Statements to this Quarterly Report on Form 10-Q for the quarterly period ended May 31, 2007.

Table of Contents

Item 1. ***Financial Statements***

CHS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Unaudited)

	May 31, 2007	August 31, 2006	May 31, 2006
	(dollars in thousands)		
ASSETS			
Current assets:			
Cash and cash equivalents	$ 245,911	$ 112,525	$ 136,927
Receivables	1,440,022	1,076,602	1,083,000
Inventories	1,197,178	1,130,824	1,024,093
Other current assets	560,656	298,666	413,067
Total current assets	3,443,767	2,618,617	2,657,087
Investments	811,037	624,253	599,856
Property, plant and equipment	1,625,669	1,476,239	1,433,414
Other assets	245,042	223,474	230,637
Total assets	$ 6,125,515	$ 4,942,583	$ 4,920,994
LIABILITIES AND EQUITIES			
Current liabilities:			
Notes payable	$ 528,628	$ 22,007	$ 140,048
Current portion of long-term debt	60,471	60,748	40,419
Customer credit balances	94,920	66,468	74,302
Customer advance payments	88,899	82,362	104,175
Checks and drafts outstanding	90,032	57,083	53,954
Accounts payable	1,029,336	904,143	877,885
Accrued expenses	434,298	347,078	382,686
Dividends and equities payable	199,677	249,774	184,640
Total current liabilities	2,526,261	1,789,663	1,858,109
Long-term debt	630,449	683,997	703,421
Other liabilities	400,927	310,157	269,837
Minority interests in subsidiaries	204,093	141,375	162,361
Commitments and contingencies			
Equities	2,363,785	2,017,391	1,927,266
Total liabilities and equities	$ 6,125,515	$ 4,942,583	$ 4,920,994

The accompanying notes are an integral part of the consolidated financial statements (unaudited).

Table of Contents

CHS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended May 31,		For the Nine Months Ended May 31,	
	2007	2006	2007	2006
	(dollars in thousands)			
Revenues	$ 4,732,465	$ 3,742,482	$ 12,218,115	$ 10,352,612
Cost of goods sold	4,404,540	3,524,493	11,522,206	9,765,727
Gross profit	327,925	217,989	695,909	586,885
Marketing, general and administrative	64,871	62,659	175,564	168,815
Operating earnings	263,054	155,330	520,345	418,070
Loss (gain) on investments	251		(16,497)	
Interest, net	9,272	11,540	25,963	28,286
Equity income from investments	(67,490)	(43,930)	(84,336)	(58,292)
Minority interests	61,287	28,717	94,669	70,084
Income from continuing operations before income taxes	259,734	159,003	500,546	377,992
Income taxes	21,961	22,440	44,182	47,156
Income from continuing operations	237,773	136,563	456,364	330,836
Income on discontinued operations, net of taxes		(30)		(139)
Net income	$ 237,773	$ 136,593	$ 456,364	$ 330,975

The accompanying notes are an integral part of the consolidated financial statements (unaudited).

Table of Contents

CHS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended May 31,	
	2007	2006 (as restated)
	(dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 456,364	$ 330,975
Depreciation and amortization	103,374	92,271
Income from equity investments	(84,336)	(58,292)
Distributions from equity investments	60,099	51,167
Minority interests	94,669	70,084
Noncash patronage dividends received	(1,346)	(1,139)
Gain on sale of property, plant and equipment	(4,080)	(1,983)
Gain on investments	(16,497)	
Deferred taxes	13,697	44,549
Other, net	328	242
Changes in operating assets and liabilities:		
Receivables	(314,184)	61,841
Inventories	(58,834)	(100,560)
Other current assets and other assets	(267,619)	(37,403)
Customer credit balances	28,132	(18,082)
Customer advance payments	6,513	(23,274)
Accounts payable and accrued expenses	197,077	(131,940)
Other liabilities	49,283	(263)
Net cash provided by operating activities	262,640	278,193
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(249,648)	(161,027)
Proceeds from disposition of property, plant and equipment	9,263	8,993
Investments	(84,208)	(72,990)
Investments redeemed	4,438	6,328
Proceeds from sale of investment	10,918	
Changes in notes receivable	(54,215)	(5,723)
Acquisition of intangibles	(8,144)	(2,867)
Other investing activities, net	(2,143)	1,124
Net cash used in investing activities	(373,739)	(226,162)
Cash flows from financing activities:		
Changes in notes payable	506,583	64,623
Principal payments on long-term debt	(54,150)	(30,375)

Payments for bank fees on debt		(1,971)
Changes in checks and drafts outstanding	32,313	(13,643)
Distribution to minority owners	(32,725)	(51,599)
Costs incurred capital equity certificates redeemed	(145)	(88)
Preferred stock dividends paid	(9,484)	(7,884)
Retirements of equities	(64,856)	(52,670)
Cash patronage dividends paid	(133,051)	(62,515)
Net cash provided by (used in) financing activities	244,485	(156,122)
Net increase (decrease) in cash and cash equivalents	133,386	(104,091)
Cash and cash equivalents at beginning of period	112,525	241,018
Cash and cash equivalents at end of period	$ 245,911	$ 136,927

The accompanying notes are an integral part of the consolidated financial statements (unaudited).

Table of Contents

CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(dollars in thousands)

Note 1. Accounting Policies

The unaudited consolidated balance sheets as of May 31, 2007 and 2006, the statements of operations for the three and nine months ended May 31, 2007 and 2006, and the statements of cash flows for the nine months ended May 31, 2007 and 2006 reflect, in the opinion of our management, all normal recurring adjustments necessary for a fair statement of the financial position and results of operations and cash flows for the interim periods presented. The results of operations and cash flows for interim periods are not necessarily indicative of results for a full fiscal year because of, among other things, the seasonal nature of our businesses. The consolidated balance sheet data as of August 31, 2006 has been derived from our audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The consolidated financial statements include our accounts and the accounts of all of our wholly-owned and majority-owned subsidiaries and limited liability companies. The effects of all significant intercompany accounts and transactions have been eliminated.

These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended August 31, 2006, included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission.

Goodwill and Other Intangible Assets

Goodwill was $3.8 million, $3.9 million and $3.9 million on May 31, 2007, August 31, 2006 and May 31, 2006, respectively, and is included in other assets in the consolidated balance sheets.

Intangible assets subject to amortization primarily include trademarks, customer lists and agreements not to compete, and are amortized over the number of years that approximate their respective useful lives (ranging from 3 to 15 years). The gross carrying amount of these intangible assets was $37.5 million with total accumulated amortization of $10.9 million as of May 31, 2007. Intangible assets of $11.1 million (includes $3.0 million non-cash) and $3.9 million (includes $1.0 million non-cash) were acquired during the nine months ended May 31, 2007 and 2006, respectively. Total amortization expense for intangible assets during the nine-month periods ended May 31, 2007 and 2006, was $2.1 million and $4.2 million, respectively. The estimated annual amortization expense related to intangible assets subject to amortization for the next five years will approximate $3.3 million annually for the first two years, $3.0 million for the next two years and $2.6 million for the following year.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for income taxes recognized in an enterprise s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. FIN 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS No. 158). SFAS No. 158 requires that employers recognize on a prospective basis the funded status of their defined benefit pension and other postretirement plans on their consolidated balance sheet and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits

Table of Contents

CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

that arise during the period but are not recognized as components of net periodic benefit cost. SFAS No. 158 also requires additional disclosures in the notes to financial statements. SFAS No. 158 is effective as of the end of fiscal years ending after December 15, 2006.

Based on the funded status of our defined benefit pension and postretirement medical plans as of the most recent measurement dates, we will be required to increase our net liabilities for pension and postretirement medical benefits upon adoption of SFAS No. 158, which will result in a decrease to owner s equity in our Consolidated Balance Sheet. The ultimate amounts to be recorded are highly dependent on a number of assumptions, including the discount rates in effect in 2007, the actual rate of return on pension assets for 2007 and the tax effects of adoption. Changes in these assumptions since our last measurement date could increase or decrease the expected impact of implementing SFAS No. 158 in our consolidated financial statements at August 31, 2007.

In September 2006, the FASB issued FASB Staff Position (FSP) AUG AIR-1, Accounting for Planned Major Maintenance Activities , addressing the accounting for planned major maintenance activities which includes refinery turnarounds. This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods but allows the alternative deferral method. This FSP shall be applied to the first fiscal year beginning after December 15, 2006 (our fiscal year 2008). We are currently using the accrue-in-advance method of accounting, and are in the process of assessing the impact this FSP will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements to increase consistency and comparability in fair value measurements by defining fair value, establishing a framework for measuring fair value in generally accepted accounting principles, and expanding disclosures about fair value measurements. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. SFAS No. 157 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. 157 will have on our consolidated results of operations and financial condition.

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.

Reclassifications

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

Table of Contents

CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Note 2. Receivables

	May 31, 2007	August 31, 2006	May 31, 2006
Trade	$ 1,394,391	$ 1,056,514	$ 1,054,063
Other	105,471	73,986	83,258
	1,499,862	1,130,500	1,137,321
Less allowances for doubtful accounts	59,840	53,898	54,321
	$ 1,440,022	$ 1,076,602	$ 1,083,000

Note 3. Inventories

	May 31, 2007	August 31, 2006	May 31, 2006
Grain and oilseed	$ 546,938	$ 511,413	$ 402,313
Energy	422,274	447,664	421,939
Feed and farm supplies	180,267	137,978	171,598
Processed grain and oilseed	45,023	32,198	26,723
Other	2,676	1,571	1,520
	$ 1,197,178	$ 1,130,824	$ 1,024,093

Note 4. Derivative Assets and Liabilities

Included in other current assets on May 31, 2007, August 31, 2006 and May 31, 2006 are derivative assets of $235.3 million, $74.3 million and $103.9 million, respectively. Included in accrued expenses on May 31, 2007, August 31, 2006 and May 31, 2006 are derivative liabilities of $166.3 million, $97.8 million and $109.3 million, respectively.

Note 5. Investments

US BioEnergy Corporation (US BioEnergy), is an ethanol production company which currently owns and operates four ethanol plants and has three ethanol plants under construction. During the nine months ended May 31, 2007, we made additional investments of $35.3 million in US BioEnergy, bringing our total cash investments for common stock in the company to $105.3 million. Prior investments in US BioEnergy include $70.0 million of stock purchased during the nine months ended May 31, 2006. 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 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 $11.4 million on our investment during the six months ended February 28, 2007 to reflect our proportionate share of the increase in the underlying equity of US BioEnergy. During the three months ended May 31, 2007, our ownership interest changed slightly, and accordingly, our gain was adjusted down by $0.3 million, to bring the net gain to a total of $11.1 million. This gain is reflected in our Processing segment. Based upon the market price of US BioEnergy s stock of $12.88 per share on May 31, 2007, our investment had a market value of approximately $185.5 million. The carrying value of our investment in US BioEnergy of $122.6 million exceeds our share of their equity by approximately $19 million, and represents equity method goodwill. We are recognizing earnings of US BioEnergy, to the extent of our ownership interest, using the equity method of accounting.

Table of Contents

CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

During the nine months ended May 31, 2007, we made investments in two ventures. We invested $22.2 million for an equity position in a Brazil-based grain handling and merchandising company, Multigrain S.A., which is owned jointly (50/50) with Multigrain Comercio, an agricultural commodities business headquartered in Sao Paulo, Brazil, and is included in our Ag Business segment. This venture includes grain storage and export facilities and builds on our South American soybean origination. We have also invested $15.6 million in a new Horizon Milling G.P. venture (24% CHS ownership), included in our Processing segment, during the nine months ended May 31, 2007, to acquire the Canadian grain-based foodservice and industrial businesses of Smucker Foods of Canada, which includes three flour milling operations and two dry baking mixing facilities in Canada.

During the nine months ended May 31, 2007, we sold 540,000 shares of our CF Industries Holdings, Inc. (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%.

Agriliance LLC (Agriliance), an investment included in our Ag Business segment, is a wholesale and retail crop nutrients and crop protections products company that is owned and governed 50% by us through United Country Brands, LLC (100% owned subsidiary) and 50% by Land O Lakes, Inc. We also own a 50% interest in Ventura Foods, LLC, (Ventura Foods), a joint venture which produces and distributes vegetable oil-based products, and is included in our Processing segment.

In June 2007, we announced that two business segments of Agriliance are being repositioned. We expect to acquire the wholesale crop nutrients business of Agriliance, and Land O Lakes, Inc. expects to acquire the wholesale crop protection business. Terms of the transaction, expected to be completed in September 2007, will not be disclosed until details are finalized. We and Land O Lakes, Inc. have also retained an investment banking firm to assist us in repositioning the Agriliance retail assets. We are currently in exclusive negotiations with a group which includes Agriliance management team members and financial backers for the sale of the majority of their retail assets.

As of May 31, 2007, the carrying value of our equity method investees, Agriliance and Ventura Foods, exceeds our share of their equity by $43.3 million. Of this basis difference, $3.7 million is being amortized over the remaining life of the corresponding assets, which is approximately five years. The balance of the basis difference represents equity method goodwill.

The following provides summarized unaudited financial information for our unconsolidated significant equity investments in Ventura Foods and Agriliance, for the balance sheets as of May 31, 2007, August 31, 2006 and May 31, 2006 and statements of operations for the three-month and nine-month periods as indicated below.

Ventura Foods, LLC

	For the Three Months Ended May 31,		For the Nine Months Ended May 31,	
	2007	**2006**	**2007**	**2006**
Net sales	$ 414,057	$ 366,271	$ 1,193,784	$ 1,097,036

Gross profit	56,285	46,491	164,784	149,683
Net income	11,041	15,173	55,256	47,420

Table of Contents

CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	May 31, 2007	August 31, 2006	May 31, 2006
Current assets	$ 280,919	$ 237,117	$ 208,987
Non-current assets	455,124	441,435	441,199
Current liabilities	191,415	141,080	122,007
Non-current liabilities	309,436	308,377	308,346

Agriliance LLC

	For the Three Months Ended May 31,		For the Nine Months Ended May 31,	
	2007	2006	2007	2006
Net sales	$ 1,832,590	$ 1,590,546	$ 3,000,107	$ 2,780,543
Gross profit	208,656	147,601	300,200	257,803
Net income	108,036	59,614	49,255	27,012

	May 31, 2007	August 31, 2006	May 31, 2006
Current assets	$ 1,754,732	$ 1,261,874	$ 1,820,206
Non-current assets	162,822	166,365	159,723
Current liabilities	1,468,437	999,038	1,582,721
Non-current liabilities	141,932	132,071	125,693

Note 6. Discontinued Operations

In our fiscal year 2005, we sold the majority of our Mexican foods business, and in our fiscal year 2006, we sold the remaining assets. The operating results of the Mexican Foods business are reported as discontinued operations for the three and nine months ended May 31, 2006, and the summarized results are as follows:

	For the Three Months Ended May 31, 2006	For the Nine Months Ended May 31, 2006
Marketing, general and administrative *	$ (50)	$ (373)
Interest, net		145
Income tax expense	20	89

Income from discontinued operations, net of taxes	$ (30)	$ (139)

* Includes a gain of $0.8 million on the sale of a facility for the nine months ended May 31, 2006.

Note 7. Notes Payable and Long-term Debt

During the nine months ended May 31, 2007, we instituted two commercial paper programs totaling up to $125 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 $100 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 May 31, 2007, we had $44.1 million of commercial paper outstanding, all with maturities of less than 60 days from their issuance and with interest rates ranging from 5.57% to 5.65%.

Table of Contents

CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

In December 2006, National Cooperative Refinery Association (NCRA) entered into an agreement with the City of McPherson, Kansas related to certain of its ultra-low sulfur fuel assets (cost of approximately $325 million). The City of McPherson issued $325 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 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 final maturity in ten years.

Note 8. Interest, net

Interest, net for the three and nine months ended May 31, 2007 and 2006 is as follows:

	For the Three Months Ended May 31,		For the Nine Months Ended May 31,	
	2007	2006	2007	2006
Interest expense	$ 13,567	$ 12,397	$ 37,694	$ 37,560
Interest income	4,295	857	11,731	9,274
Interest, net	$ 9,272	$ 11,540	$ 25,963	$ 28,286

Note 9. Equities

Changes in equity for the nine-month periods ended May 31, 2007 and 2006 are as follows:

	Fiscal 2007	Fiscal 2006
Balances, September 1, 2006 and 2005	$ 2,017,391	$ 1,757,897
Net income	456,364	330,975
Other comprehensive income	44,706	10,844
Patronage distribution	(379,838)	(207,842)
Patronage accrued	374,000	203,000
Equities retired	(64,856)	(52,670)
Equity retirements accrued	100,755	51,676
Equities issued in exchange for elevator properties	4,652	6,342
Preferred stock dividends	(9,484)	(7,884)

Preferred stock dividends accrued	1,955	1,650
Accrued dividends and equities payable	(183,513)	(167,455)
Other, net	1,653	733
Balances, May 31, 2007 and 2006	$ 2,363,785	$ 1,927,266

During the nine months ended May 31, 2007 and 2006, we redeemed $35.9 million and $23.8 million, respectively, of our capital equity certificates by issuing shares of our 8% Cumulative Redeemable Preferred Stock.

Table of Contents

CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Note 10. Comprehensive Income

Total comprehensive income primarily consists of net income, unrealized net gains or losses on available for sale investments and energy derivatives, and the effects of minimum pension liability adjustments. For the three months ended May 31, 2007 and 2006, total comprehensive income amounted to $243.3 million and $137.8 million, respectively. For the nine months ended May 31, 2007 and 2006, total comprehensive income amounted to $501.1 million and $341.8 million, respectively. Accumulated other comprehensive income on May 31, 2007, August 31, 2006 and May 31, 2006 was $57.8 million, $13.1 million and $15.8 million, respectively. The change in accumulated other comprehensive income during the three months and nine months ended May 31, 2007, consisted primarily of net gains on available for sale investments.

Note 11. Employee Benefit Plans

Employee benefit information for the three and nine months ended May 31, 2007 and 2006 is as follows:

	Qualified Pension Benefits		Non-Qualified Pension Benefits		Other Benefits	
	2007	2006	2007	2006	2007	2006
Components of net periodic benefit cost for the three months ended May 31:						
Service cost	$ 3,590	$ 3,724	$ 255	$ 560	$ 239	$ 242
Interest cost	4,816	4,259	361	352	417	392
Return on plan assets	(7,296)	(7,091)				
Prior service cost amortization	217	213	115	129	(127)	(75)
Actuarial loss (gain) amortization	1,442	1,878	27	68	(9)	25
Transition amount amortization					233	234
Net periodic benefit cost	$ 2,769	$ 2,983	$ 758	$ 1,109	$ 753	$ 818
Components of net periodic benefit cost for the nine months ended May 31:						
Service cost	$ 10,770	$ 11,170	$ 767	$ 1,646	$ 718	$ 768
Interest cost	14,450	12,777	1,083	1,026	1,252	1,176
Return on plan assets	(21,887)	(21,272)				
Prior service cost amortization	650	641	346	387	(383)	(229)
Actuarial loss (gain) amortization	4,325	5,635	82	158	(29)	13
Transition amount amortization					701	702
Net periodic benefit cost	$ 8,308	$ 8,951	$ 2,278	$ 3,217	$ 2,259	$ 2,430

Employer Contributions:

During the nine months ended May 31, 2007, NCRA, of which we own approximately 74.5%, contributed $4.9 million to its pension plan. In June 2007, we contributed $10.0 million to our pension plan.

Note 12. Segment Reporting

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. Corporate and Other primarily represents our business

Table of Contents

CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

solutions operations, which consists of commodities hedging, insurance and financial services related to crop production. Our Energy segment produces and provides for the wholesale distribution of petroleum products and transports many of 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.

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.

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 to be 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.

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 agronomy 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 revenue can be significantly affected by global market prices for commodities such as petroleum products, natural gas, grains, oilseeds and flour. Changes in market prices for commodities that we purchase without a corresponding change in the selling prices of those products can 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 or losses 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 LLC (Agriliance), TEMCO, LLC (TEMCO) and United Harvest, LLC (United Harvest) included in our Ag Business segment; Ventura Foods, LLC (Ventura Foods), our 24% ownership in Horizon Milling, LLC (Horizon Milling), and an approximate 21% ownership in US BioEnergy Corporation (US BioEnergy) included in our Processing segment; and our 49% ownership in Cofina Financial, LLC (Cofina) included in Corporate and Other.

In fiscal year 2005, we sold the majority of our Mexican foods business, and in fiscal year 2006, we sold the remaining assets. The operating results of the Mexican Foods business are reported as discontinued operations for the three and nine months ended May 31, 2006.

Table of Contents

CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

The consolidated financial statements include the accounts of CHS and all of our wholly-owned and majority-owned subsidiaries and limited liability companies, including National Cooperative Refinery Association (NCRA), included in our Energy segment. During fiscal 2006, our Energy segment investment in Provista Renewable Fuels Marketing, LLC (Provista) resulted in financial statement consolidation. The effects of all significant intercompany transactions have been eliminated.

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.

Segment information for the three and nine months ended May 31, 2007 and 2006 is as follows:

	Energy	Ag Business	Processing	Corporate and Other	Reconciling Amounts	Total
For the Three Months Ended May 31, 2007						
Revenues	$ 2,186,568	$ 2,411,945	$ 193,553	$ 6,121	$ (65,722)	$ 4,732,465
Cost of goods sold	1,929,258	2,354,272	187,502	(770)	(65,722)	4,404,540
Gross profit	257,310	57,673	6,051	6,891		327,925
Marketing, general and administrative	23,938	27,381	5,928	7,624		64,871
Operating earnings (losses)	233,372	30,292	123	(733)		263,054
Loss on investments			251			251
Interest, net	(1,925)	8,956	4,151	(1,910)		9,272
Equity income from investments	(952)	(55,826)	(9,431)	(1,281)		(67,490)
Minority interests	61,268	19				61,287
Income from continuing operations before income taxes	$ 174,981	$ 77,143	$ 5,152	$ 2,458	$	$ 259,734
Intersegment revenues	$ (54,936)	$ (10,677)	$ (109)		$ 65,722	$
For the Three Months Ended May 31, 2006						
Revenues	$ 1,845,248	$ 1,795,383	$ 156,976	$ 10,183	$ (65,308)	$ 3,742,482
Cost of goods sold	1,694,937	1,742,549	153,701	(1,386)	(65,308)	3,524,493

Gross profit	150,311	52,834	3,275	11,569		217,989
Marketing, general and administrative	21,111	27,685	5,553	8,310		62,659
Operating earnings (losses)	129,200	25,149	(2,278)	3,259		155,330
Interest, net	2,190	7,314	2,916	(880)		11,540
Equity income from investments	(1,010)	(31,898)	(9,738)	(1,284)		(43,930)
Minority interests	28,691	26				28,717
Income from continuing operations before income taxes	$ 99,329	$ 49,707	$ 4,544	$ 5,423	$	$ 159,003
Intersegment revenues	$ (63,581)	$ (1,650)	$ (77)		$ 65,308	$

Table of Contents

CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

	Energy	Ag Business	Processing	Corporate and Other	Reconciling Amounts	Total
For the Nine Months Ended May 31, 2007						
Revenues	$ 5,753,660	$ 6,100,397	$ 526,513	$ 21,869	$ (184,324)	$ 12,218,115
Cost of goods sold	5,263,754	5,942,916	501,541	(1,681)	(184,324)	11,522,206
Gross profit	489,906	157,481	24,972	23,550		695,909
Marketing, general and administrative	67,149	70,369	17,928	20,118		175,564
Operating earnings	422,757	87,112	7,044	3,432		520,345
Gain on investments		(5,348)	(11,149)			(16,497)
Interest, net	(2,164)	21,538	10,917	(4,328)		25,963
Equity income from investments	(3,089)	(37,027)	(40,626)	(3,594)		(84,336)
Minority interests	94,677	(8)				94,669
Income from continuing operations before income taxes	$ 333,333	$ 107,957	$ 47,902	$ 11,354	$	$ 500,546
Intersegment revenues	$ (171,188)	$ (12,853)	$ (283)	$	$ 184,324	$
Goodwill	$ 3,654	$ 150				$ 3,804
Capital expenditures	$ 212,450	$ 24,754	$ 10,657	$ 1,787		$ 249,648
Depreciation and amortization	$ 63,719	$ 24,847	$ 10,862	$ 3,946		$ 103,374
Total identifiable assets at May 31, 2007	$ 2,627,453	$ 2,320,757	$ 634,745	$ 542,560		$ 6,125,515
For the Nine Months Ended May 31, 2006						
Revenues	$ 5,305,640	$ 4,736,615	$ 458,946	$ 25,283	$ (173,872)	$ 10,352,612
Cost of goods sold	4,895,142	4,606,393	440,488	(2,424)	(173,872)	9,765,727
Gross profit	410,498	130,222	18,458	27,707		586,885
Marketing, general and administrative	58,008	73,050	16,199	21,558		168,815

Operating earnings	352,490	57,172	2,259	6,149		418,070
Interest, net	5,358	14,545	8,028	355		28,286
Equity income from investments	(2,946)	(24,648)	(27,558)	(3,140)		(58,292)
Minority interests	69,976	108				70,084
Income from continuing operations before income taxes	$ 280,102	$ 67,167	$ 21,789	$ 8,934	$	$ 377,992
Intersegment revenues	$ (167,238)	$ (6,383)	$ (251)		$ 173,872	$
Goodwill	$ 3,654	$ 250				$ 3,904
Capital expenditures	$ 123,447	$ 30,140	$ 5,853	$ 1,587		$ 161,027
Depreciation and amortization	$ 54,223	$ 23,233	$ 10,496	$ 4,319		$ 92,271
Total identifiable assets at May 31, 2006	$ 2,136,804	$ 1,819,540	$ 503,551	$ 461,099		$ 4,920,994

Table of Contents

CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Note 13. Commitments and Contingencies

Environmental

We have incurred capital expenditures related to actions taken to comply with the Environmental Protection Agency low sulfur fuel regulations which were complete in fiscal year 2006. We incurred capital expenditures from fiscal year 2003 through 2006 for these projects totaling $88.1 million at our Laurel, Montana refinery and $328.7 million at NCRA s McPherson, Kansas refinery.

Guarantees

We are a guarantor for lines of credit for related companies. Our bank covenants allow maximum guarantees of $150.0 million, of which $37.1 million was outstanding on May 31, 2007. In addition, our bank covenants allow for guarantees dedicated solely for NCRA in the amount of $125.0 million, for which there are no outstanding guarantees.

In the past, we made seasonal and term loans to member cooperatives, and our wholly-owned subsidiary, Fin-Ag, Inc., made loans for agricultural purposes to individual producers. Some of these loans were sold to CoBank, ACB (Cobank), and we guaranteed a portion of the loans sold, some of which are still outstanding. Currently these loans are made by Cofina, in which we have a 49% ownership interest. We may, at our own discretion, choose to guarantee certain loans made by Cofina. In addition, we also guarantee certain debt and obligations under contracts for our subsidiaries and members.

Our obligations pursuant to our guarantees as of May 31, 2007 are as follows:

Entities	Guarantee / Maximum Exposure	Exposure on May 31, 2007	Nature of Guarantee	Expiration Date	Triggering Event	Recourse Provisions	Assets Held as Collateral
The Company s financial services cooperative loans sold to CoBank	*	$ 87	10% of the obligations of borrowers (agri-cultural cooperatives) under credit agreements for loans sold	None stated, but may be terminated by either party upon 60 days prior notice in regard to future obligations	Credit agreement default	Subrogation against borrower	Some or all assets of borrower are held as collateral and should be sufficient to cover guarantee exposure
Provista Renewable Fuels Marketing,	$ 20,000	8,000	Obligations by Provista under credit agreement	None stated	Credit agreement default	Subrogation against Provista	None

LLC							
Horizon Milling, LLC	$ 5,000		Indemnification and reimbursement of 24% of damages related to Horizon Milling, LLC 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 sale agreement	Subrogation against Horizon Milling, LLC	None
TEMCO, LLC	$ 25,000	4,700	Obligations by TEMCO, LLC under credit agreement	None stated	Credit agreement default	Subrogation against TEMCO, LLC	None
TEMCO, LLC	$ 1,000	1,000	Obligations by TEMCO, LLC under counterparty agreement	None stated, but may be terminated upon 5 days prior notice in regard to future obligations	Nonpayment	Subrogation against TEMCO, LLC	None

Table of Contents

CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Entities	Guarantee / Maximum Exposure	Exposure on May 31, 2007	Nature of Guarantee	Expiration Date	Triggering Event	Recourse Provisions	Assets Held as Collateral
Third parties	*	1,000	Surety for, or indemnificaton 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
Cofina Financial, LLC	$ 24,881	14,374	Loans to our customers that are originated by Cofina 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	$ 12,100	7,914	Loans made by Cofina 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
		$ 37,075					

* The maximum exposure on any given date is equal to the actual guarantees extended as of that date.

Note 14. Restatement

We previously restated our Consolidated Statement of Cash Flows for the nine months ended May 31, 2006, in our Annual Report on Form 10-K for the year ended August 31, 2006, to correct an error in the classification of our cash flows received from our interest in joint ventures. We determined that a portion of the cash flows from our joint ventures should have been considered a return on our investment and classified as an operating activity as distributions from equity investments, instead of as an investing activity.

The restatement did not have an impact on our Consolidated Statement of Operations, Consolidated Statement of Shareholders Equities and Comprehensive Income, or total change in cash and cash equivalents on our Consolidated Statement of Cash Flows for the nine months ended May 31, 2006. In addition, it did not have any impact on our Consolidated Balance Sheet as of May 31, 2006.

Table of Contents

CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Summarized results of the previously reported and restated Consolidated Statement of Cash Flows for the nine months ended May 31, 2006 are as follows:

	For the Nine Months Ended May 31,	
	as reported	as restated
Cash flows from operating activities:		
Distributions from equity investments		$ 51,167
Net cash provided by operating activities	$ 227,026	278,193
Cash flows from investing activities:		
Equity investments redeemed	53,340	
Investments redeemed	4,155	6,328
Net cash used in investing activities	(174,995)	(226,162)
Net cash used in financing activities	(156,122)	(156,122)
Net decrease in cash and cash equivalents	(104,091)	(104,091)
Cash and cash equivalents at beginning of period	241,018	241,018
Cash and cash equivalents at end of period	136,927	136,927

Table of Contents

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Cautionary Statement Regarding Forward-Looking Statements

The information in this Quarterly Report on Form 10-Q for the quarter ended May 31, 2007, includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to CHS. In addition, CHS and its representatives and agents may from time to time make other written or oral forward-looking statements, including statements contained in its filings with the Securities and Exchange Commission and its reports to its members and securityholders. Words and phrases such as will likely result, are expected to, is anticipated, estimate, project and similar expressions identify forward-looking statements. We wish to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made.

Our 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. This Cautionary Statement is for the purpose of qualifying for the safe harbor provisions of the Act and is intended to be a readily available written document that contains factors which could cause results to differ materially from those projected in the forward-looking statements. The following matters, among others, may have a material adverse effect on our business, financial condition, liquidity, results of operations or prospects, financial or otherwise. Reference to this Cautionary Statement in the context of a forward-looking statement shall be deemed to be a statement that any one or more of the following factors may cause actual results to differ materially from those which might be projected, forecasted, estimated or budgeted by us in the forward-looking statement or statements.

The following factors are in addition to any other cautionary statements, written or oral, which may be made or referred to in connection with any particular forward-looking statement. The following review should not be construed as exhaustive.

We undertake no obligation to revise any forward-looking statements to reflect future events or circumstances.

Our revenues and operating results could be adversely affected by changes in commodity prices. Our revenues and earnings are affected by market prices for commodities such as crude oil, natural gas, grain, oilseeds, flour, and crude and refined vegetable oil. Commodity prices generally are affected by a wide range of factors beyond our control, including weather, disease, insect damage, drought, the availability and adequacy of supply, government regulation and policies, and general political and economic conditions. We are also exposed to fluctuating commodity prices as the result of our inventories of commodities, typically grain and petroleum products, and purchase and sale contracts at fixed or partially fixed prices. At any time, our inventory levels and unfulfilled fixed or partially fixed price contract obligations may be substantial. Increases in market prices for commodities that we purchase without a corresponding increase in the prices of our products or our sales volume or a decrease in our other operating expenses could reduce our revenues and net income.

In our energy operations, profitability depends largely on the margin between the cost of crude oil that we refine and the selling prices that we obtain for our refined products. Although the prices for crude oil reached historical highs during 2006 and again in 2007, the prices for both crude oil and for gasoline, diesel fuel and other refined petroleum products fluctuate widely. Factors influencing these prices, many of which are beyond our control, include:

levels of worldwide and domestic supplies;

capacities of domestic and foreign refineries;

the ability of the members of OPEC to agree to and maintain oil price and production controls, and the price and level of foreign imports;

disruption in supply;

political instability or armed conflict in oil-producing regions;

Table of Contents

the level of consumer demand;

the price and availability of alternative fuels;

the availability of pipeline capacity; and

domestic and foreign governmental regulations and taxes.

The long-term effects of these and other conditions on the prices of crude oil and refined petroleum products are uncertain and ever-changing. Increases in crude oil prices without a corresponding increase in the prices of our refined petroleum products could reduce our net income. Accordingly, we expect our margins on and the profitability of our energy business to fluctuate, possibly significantly, over time.

Our operating results could be adversely affected if our members were to do business with others rather than with us. We do not have an exclusive relationship with our members and our members are not obligated to supply us with their products or purchase products from us. Our members often have a variety of distribution outlets and product sources available to them. If our members were to sell their products to other purchasers or purchase products from other sellers, our revenues would decline and our results of operations could be adversely affected.

We participate in highly competitive business markets in which we may not be able to continue to compete successfully. We operate in several highly competitive business segments and our competitors may succeed in developing new or enhanced products that are better than ours, and may be more successful in marketing and selling their products than we are with ours. Competitive factors include price, service level, proximity to markets, product quality and marketing. In some of our business segments, such as Energy, we compete with companies that are larger, better known and have greater marketing, financial, personnel and other resources. As a result, we may not be able to continue to compete successfully with our competitors.

Changes in federal income tax laws or in our tax status could increase our tax liability and reduce our net income. Current federal income tax laws, regulations and interpretations regarding the taxation of cooperatives, which allow us to exclude income generated through business with or for a member (patronage income) from our taxable income, could be changed. If this occurred, or if in the future we were not eligible to be taxed as a cooperative, our tax liability would significantly increase and our net income significantly decrease.

We incur significant costs in complying with applicable laws and regulations. any failure to make the capital investments necessary to comply with these laws and regulations could expose us to financial liability. We are subject to numerous federal, state and local provisions regulating our business and operations and we incur and expect to incur significant capital and operating expenses to comply with these laws and regulations. We may be unable to pass on those expenses to customers without experiencing volume and margin losses. For example, capital expenditures for upgrading our refineries, largely to comply with regulations requiring the reduction of sulfur levels in refined petroleum products, were completed in fiscal year 2006. We incurred capital expenditures from fiscal year 2003 through 2006 related to these upgrades of $88.1 million for our Laurel, Montana refinery and $328.7 million for the National Cooperative Refinery Association s (NCRA) McPherson, Kansas refinery.

We establish reserves for the future cost of meeting known compliance obligations, such as remediation of identified environmental issues. However, these reserves may prove inadequate to meet our actual liability. Moreover, amended, new or more stringent requirements, stricter interpretations of existing requirements or the future discovery of currently unknown compliance issues may require us to make material expenditures or subject us to liabilities that we currently do not anticipate. Furthermore, our failure to comply with applicable laws and regulations could subject us

to administrative penalties and injunctive relief, civil remedies including fines and injunctions, and recalls of our products.

Environmental liabilities could adversely affect our results and financial condition. Many of our current and former facilities have been in operation for many years and, over that time, we and other operators of those facilities have generated, used, stored and disposed of substances or wastes that are or might be considered hazardous under applicable environmental laws, including chemicals and fuels stored in

Table of Contents

underground and above-ground tanks. Any past or future actions in violation of applicable environmental laws could subject us to administrative penalties, fines and injunctions. Moreover, future or unknown past releases of hazardous substances could subject us to private lawsuits claiming damages and to adverse publicity. Liabilities, including legal costs, related to remediation of contaminated properties are not recognized until the related costs are considered probable and can be reasonably estimated.

Actual or perceived quality, safety or health risks associated with our products could subject us to liability and damage our business and reputation. If any of our food or feed products became adulterated or misbranded, we would need to recall those items and could experience product liability claims if consumers were injured as a result. A widespread product recall or a significant product liability judgment could cause our products to be unavailable for a period of time or a loss of consumer confidence in our products. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or injury could adversely affect our reputation with existing and potential customers and our corporate and brand image. Moreover, claims or liabilities of this sort might not be covered by our insurance or by any rights of indemnity or contribution that we may have against others. In addition, general public perceptions regarding the quality, safety or health risks associated with particular food or feed products, such as concerns regarding genetically modified crops, could reduce demand and prices for some of the products associated with our businesses. To the extent that consumer preferences evolve away from products that our members or we produce for health or other reasons, such as the growing demand for organic food products, and we are unable to develop products that satisfy new consumer preferences, there will be a decreased demand for our products.

Our operations are subject to business interruptions and casualty losses; we do not insure against all potential losses and could be seriously harmed by unexpected liabilities. Our operations are subject to business interruptions due to unanticipated events such as explosions, fires, pipeline interruptions, transportation delays, equipment failures, crude oil or refined product spills, inclement weather and labor disputes. For example:

- our oil refineries and other facilities are potential targets for terrorist attacks that could halt or discontinue production;
- our inability to negotiate acceptable contracts with unionized workers in our operations could result in strikes or work stoppages;
- the significant inventories that we carry or the facilities we own could be damaged or destroyed by catastrophic events, extreme weather conditions or contamination; and
- an occurrence of a pandemic flu or other disease affecting a substantial part of our workforce or our customers could cause an interruption in our business operations, the affects of which could be significant.

We maintain insurance against many, but not all potential losses or liabilities arising from these operating hazards, but uninsured losses or losses above our coverage limits are possible. Uninsured losses and liabilities arising from operating hazards could have a material adverse effect on our financial position or results of operations.

Our cooperative structure limits our ability to access equity capital. As a cooperative, we may not sell common equity in our company. In addition, existing laws and our articles of incorporation and bylaws contain limitations on dividends of 8% of any preferred stock that we may issue. These limitations restrict our ability to raise equity capital and may adversely affect our ability to compete with enterprises that do not face similar restrictions.

Consolidation among the producers of products we purchase and customers for products we sell could adversely affect our revenues and operating results. Consolidation has occurred among the producers of products we purchase,

including crude oil and grain, and it is likely to continue in the future. Consolidation could increase the price of these products and allow suppliers to negotiate pricing and other contract terms that are less favorable to us. Consolidation also may increase the competition among consumers of these

Table of Contents

products to enter into supply relationships with a smaller number of producers resulting in potentially higher prices for the products we purchase.

Consolidation among purchasers of our products and in wholesale and retail distribution channels has resulted in a smaller customer base for our products and intensified the competition for these customers. For example, ongoing consolidation among distributors and brokers of food products and food retailers has altered the buying patterns of these businesses, as they have increasingly elected to work with product suppliers who can meet their needs nationwide rather than just regionally or locally. If these distributors, brokers and retailers elect not to purchase our products, our sales volumes, revenues and profitability could be significantly reduced.

If our customers chose alternatives to our refined petroleum products our revenues and profits may decline. Numerous alternative energy sources currently under development could serve as alternatives to our gasoline, diesel fuel and other refined petroleum products. If any of these alternative products become more economically viable or preferable to our products for environmental or other reasons, demand for our energy products would decline. Demand for our gasoline, diesel fuel and other refined petroleum products also could be adversely affected by increased fuel efficiencies.

Operating results from our agronomy business could be volatile and are dependent upon certain factors outside of our control. Planted acreage, and consequently the volume of fertilizer and crop protection products applied, is partially dependent upon government programs and the perception held by the producer of demand for production. Weather conditions during the spring planting season and early summer spraying season also affect agronomy product volumes and profitability.

Technological improvements in agriculture could decrease the demand for our agronomy and energy products. Technological advances in agriculture could decrease the demand for crop nutrients, energy and other crop input products and services that we provide. Genetically engineered seeds that resist disease and insects, or that meet certain nutritional requirements, could affect the demand for our crop nutrients and crop protection products. Demand for fuel that we sell could decline as technology allows for more efficient usage of equipment.

We operate some of our business through joint ventures in which our rights to control business decisions are limited. Several parts of our business, including in particular, our agronomy operations and portions of our grain marketing, wheat milling, foods and renewable fuels operations, are operated through joint ventures with third parties. By operating a business through a joint venture, we have less control over business decisions than we have in our wholly-owned or majority-owned businesses. In particular, we generally cannot act on major business initiatives in our joint ventures without the consent of the other party or parties in those ventures.

General

The following discussions of financial condition and results of operations should be read in conjunction with the unaudited interim financial statements and notes to such statements and the cautionary statement regarding forward-looking statements found at the beginning of Part I, Item 1, of this Form 10-Q, as well as our consolidated financial statements and notes thereto for the year ended August 31, 2006, included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission. This discussion contains forward-looking statements based on current expectations, assumptions, estimates and projections of 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 Form 10-Q.

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 local 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

Table of Contents

services. 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 independents. 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.

The consolidated financial statements include the accounts of CHS and all of our wholly-owned and majority-owned subsidiaries and limited liability companies, including National Cooperative Refinery Association (NCRA), included in our Energy segment. During 2006, our Energy segment investment in Provista Renewable Fuels Marketing, LLC (Provista) resulted in financial statement consolidation. The effects of all significant intercompany transactions have been eliminated.

We operate three business segments: Energy, Ag Business and Processing. Together, our three business segments create vertical integration to link producers with consumers. Corporate and Other primarily represents our business solutions operations, which consists of commodities hedging, insurance and financial services related to crop production. Our Energy segment produces and provides 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.

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 agronomy 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 revenue can be significantly affected by global market prices for commodities such as petroleum products, natural gas, grains, oilseeds and flour. Changes in market prices for commodities that we purchase without a corresponding change in the selling prices of those products can 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 LLC (Agriliance), TEMCO, LLC (TEMCO) and United Harvest, LLC (United Harvest)

included in our Ag Business segment; Ventura Foods, LLC (Ventura Foods), our 24% ownership in Horizon Milling, LLC (Horizon Milling), and an approximate 21% ownership in US BioEnergy Corporation (US BioEnergy) included in our Processing segment; and our 49% ownership in Cofina Financial, LLC (Cofina) included in Corporate and Other.

Table of Contents

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

We previously restated our Consolidated Statement of Cash Flows for the nine months ended May 31, 2006, in our Annual Report on Form 10-K for the year ended August 31, 2006, to correct an error in the classification of our cash flows received from our interest in joint ventures. We determined that a portion of the cash flows from our joint ventures should have been considered a return on our investment and classified as an operating activity as distributions from equity investments, instead of as an investing activity. The restatement did not have an impact on our Consolidated Statement of Operations, Consolidated Statement of Shareholders Equities and Comprehensive Income, or total change in cash and cash equivalents on our Consolidated Statement of Cash Flows for the nine months ended May 31, 2006. In addition, it did not have any impact on our Consolidated Balance Sheet as of May 31, 2006.

Recent Events

In June 2007, we announced that two business segments of Agriliance are being repositioned. We expect to acquire the wholesale crop nutrients business of Agriliance, and Land O Lakes, Inc. expects to acquire the wholesale crop protection business. Terms of the transaction, expected to be completed in September 2007, will not be disclosed until details are finalized. We and Land O Lakes, Inc. have also retained an investment banking firm to assist us in repositioning the Agriliance retail assets. We are currently in exclusive negotiations with a group which includes Agriliance management team members and financial backers for the sale of the majority of their retail assets.

Results of Operations

Comparison of the three months ended May 31, 2007 and 2006

General. We recorded income from continuing operations before income taxes of $259.7 million during the three months ended May 31, 2007 compared to $159.0 million during the three months ended May 31, 2006, an increase of $100.7 million (63%). These results reflected increased pretax earnings in each of our three business segments, partially offset by a decrease in Corporate and Other.

Our Energy segment generated income from continuing operations before income taxes of $175.0 million for the three months ended May 31, 2007 compared to $99.3 million in the three months ended May 31, 2006. This increase in earnings of $75.7 million (76%) is primarily from improved margins on refined fuels, which resulted mainly from stronger global demand and tight supply in our trade area due to planned major maintenance and a fire at a refinery operated by competitors. Earnings in our lubricants, propane, renewable fuels marketing and transportation businesses also improved during the three months ended May 31, 2007 when compared to the same three-month period of the previous year. Energy segment earnings for the fourth quarter of our current fiscal year and the first quarter of our fiscal 2008, are expected to be impacted by planned major maintenance turnarounds at our Laurel, Montana refinery, during which time production at the refinery is completely shut down. A turnaround started in mid-May of our third fiscal quarter was completed in June 2007, but due to a shortage of labor during the process an additional turnaround will be needed. It is expected that the second turnaround will start sometime in August 2007, and will take approximately four to five weeks to complete.

Our Ag Business segment generated income from continuing operations before income taxes of $77.1 million for the three months ended May 31, 2007 compared to $49.7 million in the three months ended May 31, 2006, an increase in earnings of $27.4 million (55%). Increased margins for crop inputs sold during the spring planting season resulted in improved performances by Agriliance, our agronomy joint venture, and our country operations businesses. Our 50% share of the Agriliance joint venture earnings, net of allocated internal expenses, increased by $23.9 million, primarily

because of improved crop nutrients margins and an 11% net increase in crop nutrient volumes for the three months ended May 31, 2007 compared to the three months ended May 31, 2006. Our country operations earnings increased $9.2 million, primarily as a result of improved agronomy product margins and increased volumes compared to the three-month period in the prior year. The

Table of Contents

improved income from our agronomy and country operations businesses was partially offset by decreased income from our grain marketing operations of $5.6 million during the three months ended May 31, 2007 compared with the same period in 2006. This decrease is primarily due to decreased margins from corn, durum and soybeans.

Our Processing segment generated income from continuing operations before income taxes of $5.2 million for the three months ended May 31, 2007 compared to $4.5 million in the three months ended May 31, 2006, an increase in earnings of $0.7 million (13%). Oilseed processing earnings of $1.2 million, increased $2.6 million during the three months ended May 31, 2007 compared to the same period in the prior year, primarily due to improved margins in our crushing operations, partially offset by decreased margins in our refining operations. Our share of earnings from our wheat milling joint ventures, net of allocated internal expenses, reported improved net earnings of $0.7 million for the three months ended May 31, 2007 compared to the same period in the prior year. Our share of pretax losses, net of allocated internal expenses, related to US BioEnergy, an ethanol manufacturing company in which we hold a minority ownership interest, increased $0.8 million for the three months ended May 31, 2007 compared to the same period in the prior year. 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 initial public offering (IPO), and in December 2006, the IPO was completed. The impact 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 $11.4 million on our investment during the six months ended February 28, 2007 to reflect our proportionate share of the increase in the underlying equity of US BioEnergy. During the three months ended May 31, 2007, our ownership interest changed slightly, and accordingly, our gain was adjusted down by $0.3 million, to bring the net gain to a total of $11.1 million. Our share of earnings from Ventura Foods, our packaged foods joint venture, net of allocated internal expenses, decreased $1.6 million during the three months ended May 31, 2007, compared to the same period in the prior year, primarily from increased general and administrative expenses partially offset by improved product margins.

Corporate and Other generated income from continuing operations before income taxes of $2.5 million for the three months ended May 31, 2007 compared to $5.4 million in the three months ended May 31, 2006, a decrease in earnings of $2.9 million. This decrease is primarily attributable to our business solutions operations where we are experiencing a soft market in our insurance agency business compared to the same period of a year ago.

Net Income. Consolidated net income for the three months ended May 31, 2007 was $237.8 million compared to $136.6 million for the three months ended May 31, 2006, which represents a $101.2 million (74%) increase.

Revenues. Consolidated revenues were $4.7 billion for the three months ended May 31, 2007 compared to $3.7 billion for the three months ended May 31, 2006, which represents a $1.0 billion (27%) 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 receives 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 $2.1 billion increased by $350.0 million (20%) during the three months ended May 31, 2007 compared to the three months ended May 31, 2006. During the three months ended May 31, 2007 and 2006, our Energy segment recorded revenues from our Ag Business segment of $54.9 million and $63.6 million, respectively. The net increase in revenues of $350.0 million is comprised of a $231.7 million net increase in sales volume and a net increase of $118.3 million related to price appreciation on refined fuels and propane products. The net change in revenues includes $208.4 million from our ethanol marketing

venture, which we acquired in April of fiscal 2006. Refined fuels revenues increased $106.2 million (8%), of which $80.8 million was related to a net average selling price increase and $25.4 million was attributable to increased volumes, compared to the same period in

Table of Contents

the previous year. The sales price of refined fuels increased $0.12 per gallon (6%) and volumes increased 2% when comparing the three months ended May 31, 2007 with the same period a year ago. Decreases in crude oil prices during the third quarter of this fiscal year compared to the same three-month period last fiscal year were primarily attributable to the effects of the hurricanes in the United States during the fall of 2005 and anticipated major maintenance on domestic refineries. In the fall of 2005, hurricanes at the gulf coast of the US disrupted refining capacity which, along with strong demand, contributed to the increases in refined fuels selling prices during fiscal 2006. Propane revenues decreased by $13.3 million (13%), of which $26.9 million was related to a decrease in volumes, partially offset by $13.6 million related to an increase in the net average selling price when compared to the same period in the previous year. Propane sales volume decreased 23% in comparison to the same period of the prior year, while the average selling price increased $0.13 per gallon (13%). Propane prices tend to follow the prices of crude oil and natural gas, and although crude oil prices decreased during the three months ended May 31, 2007 compared to the same period in 2006, natural gas prices increased when comparing the same periods. Propane prices are also affected by changes in propane demand and domestic inventory levels. The decrease in propane volumes primarily 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 $2.4 billion, increased $607.5 million (34%) during the three months ended May 31, 2007 compared to the three months ended May 31, 2006. Grain revenues in our Ag Business segment totaled $1,863.9 million and $1,330.5 million during the three months ended May 31, 2007 and 2006, respectively. Of the grain revenues increase of $533.4 million (40%), $445.2 million is due to increased average grain selling prices and $88.2 million is attributable to increased volumes during the three months ended May 31, 2007 compared to the same period last fiscal year. The average sales price of all grain and oilseed commodities sold reflected an increase of $1.42 per bushel (33%). 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 commodity prices 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 soybeans, corn and spring wheat increased approximately $1.86, $1.32 and $0.94, respectively, when compared to the prices of those same grains for the three months ended May 31, 2006. Volumes increased 5% during the three months ended May 31, 2007 compared with the same period of a year ago. Wheat, corn and soybeans reflected the largest volume increases compared to the three months ended May 31, 2006. Our Ag Business segment non-grain product revenues of $503.7 million increased by $76.3 million (18%) during the three months ended May 31, 2007 compared to the three months ended May 31, 2006, primarily the result of increased revenues of crop nutrient, seed, crop protection, feed and energy products. Other revenues within our Ag Business segment of $33.7 million during the three months ended May 31, 2007 decreased $2.1 million (6%) compared to the three months ended May 31, 2006.

Our Processing segment revenues, after elimination of intersegment revenues, of $193.4 million increased $36.5 million (23%) during the three months ended May 31, 2007 compared to the three months ended May 31, 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. Oilseed refining revenues increased $22.1 million (31%), of which $15.8 million was due to higher average sales price and $6.3 million was due to a net increase in sales volume. A higher average sales price of processed oilseed and other revenues increased total processed revenues for this segment by $13.4 million, while volumes of processed oilseed remained essentially unchanged when comparing the three-month periods. The average selling price of refined oilseed products increased $0.06 per pound (22%), and the average selling price of processed oilseed increased $26 per ton (17%) compared to the same period of the previous year. These changes in the average selling price of products are primarily driven by the higher price of soybeans.

Cost of Goods Sold. Cost of goods sold of $4.4 billion increased $880.0 million (25%) during the three months ended May 31, 2007 compared to the three months ended May 31, 2006.

Our Energy segment cost of goods sold, after elimination of intersegment costs, of $1.9 billion increased by $243.0 million (15%) during the three months ended May 31, 2007 compared to the same period of the

Table of Contents

prior year. The net increase in cost includes $206.1 million from our ethanol marketing venture, which we acquired in April of fiscal 2006. The remaining 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 $0.09 (5%) per gallon and volumes increased 2% compared to the three months ended May 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 increase is primarily related to higher average prices on the refined products that we purchased for resale partially offset by lower input costs at our two crude oil refineries compared to the three months ended May 31, 2006. The average per unit cost of crude oil purchased for the two refineries decreased 5% compared to the three months ended May 31, 2006. The average cost of propane increased $0.13 (13%) per gallon and volumes decreased 23% compared to the three months ended May 31, 2006.

Our Ag Business segment cost of goods sold, after elimination of intersegment costs, of $2.3 billion increased $602.7 million (35%) during the three months ended May 31, 2007 compared to the same period of the prior year. Grain cost of goods sold in our Ag Business segment totaled $1,846.4 million and $1,308.8 million during the three months ended May 31, 2007 and 2006, respectively. The cost of grains and oilseed procured through our Ag Business segment increased $537.6 million (41%) compared to the three months ended May 31, 2006. This is the result of an increase of $1.44 (34%) average cost per bushel along with a 5% net increase in bushels sold as compared to the prior year. Wheat, corn and soybeans reflected the largest volume increases compared to the three months ended May 31, 2006. Commodity prices on soybeans, corn and spring wheat have increased compared to the prices that were prevalent during the same three-month period in 2006. Our Ag Business segment cost of goods sold, excluding the cost of grains procured through this segment, increased during the three months ended May 31, 2007 compared to the three months ended May 31, 2006, primarily due to higher volumes and price per unit costs for crop nutrient, seed, crop protection, feed and energy products. The volume increases resulted primarily from acquisitions made during fiscal years 2006 and 2007.

Our Processing segment cost of goods sold, after elimination of intersegment costs of $187.4 million, increased $33.8 million (22%) compared to the three months ended May 31, 2006, which was primarily due to increased costs of soybeans in addition to volume increases in refining.

Marketing, General and Administrative. Marketing, general and administrative expenses of $64.9 million for the three months ended May 31, 2007 increased by $2.2 million (4%) compared to the three months ended May 31, 2006. The net increase of $2.2 million is primarily due to an increase of $0.8 million for educational funding and increased performance-based incentive plan expense, in addition to other employee benefits and general inflation, as well as a $1.0 million net decrease in gains on disposal of fixed assets.

Gain on Investments. 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 initial public offering (IPO), and in December 2006, the IPO was completed. The affect 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 $11.4 million on our investment during the six months ended February 28, 2007 to reflect our proportionate share of the increase in the underlying equity of US BioEnergy. During the three months ended May 31, 2007, our ownership interest changed slightly, and accordingly, our gain was adjusted down by $0.3 million, to bring the net gain to a total of $11.1 million. This net gain is reflected in our Processing segment.

Interest, net. Net interest of $9.3 million for the three months ended May 31, 2007 decreased $2.3 million (20%) compared to the three months ended May 31, 2006. Interest expense for the three months ended May 31, 2007 and 2006 was $13.6 million and $12.4 million, respectively. Interest income, generated primarily from marketable securities, was $4.3 million and $0.9 million for the three months ended May 31, 2007 and 2006, respectively. The interest expense increase of $1.2 million (9%) was due to 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 $2.5 million. For the three

Table of Contents

months ended May 31, 2007 and 2006, we capitalized interest of $3.4 million and $0.9 million, respectively, related to capitalized construction projects. The increase in capitalized interest primarily relates to financing interest on our coker project, 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 $290.8 million during the three months ended May 31, 2007 compared to the three months ended May 31, 2006, and the average short-term interest rate increased 0.49%. The interest income increase of $3.4 million was related to an increase in interest income from short term investments.

Equity Income from Investments. Equity income from investments of $67.5 million for the three months ended May 31, 2007 increased $23.5 million (54%) compared to the three months ended May 31, 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 within our Ag Business segment of $23.9 million, partially offset by reduced earnings from investments within our Processing and Energy segments and Corporate and Other in the amounts of $0.3 million, $0.1 million and $3 thousand, respectively.

Our Ag Business segment generated improved earnings of $23.9 million from equity investments for the three months ended May 31, 2007 compared to the same three-month period in 2006. Our share of equity investment earnings or losses in Agriliance increased earnings by $24.2 million and primarily relates to increased margins for products sold during the spring planting season, primarily because of improved crop nutrients margins for the three months ended May 31, 2007 compared to the three months ended May 31, 2006. The Agriliance crop nutrients volumes were up 11% over the same three-month period last year. Our investment in a Canadian agronomy joint venture contributed reduced earnings of $0.4 million. During our 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 is owned jointly (50/50) with Multigrain Comercia, an agricultural commodities business headquartered in Sao Paulo, Brazil. We recorded income of $1.3 million during the three months ended May 31, 2007 for this equity investment. Our wheat exporting investment in United Harvest contributed reduced earnings of $0.2 million, and our equity income from our investment in TEMCO, a joint venture which exports primarily corn and soybeans, also recorded reduced earnings of $0.7 million. Our country operations reported an aggregate decrease in equity investment earnings of $0.3 million for several small equity investments.

Our Processing segment generated reduced earnings of $0.3 million from equity investments for the three months ended May 31, 2007 compared to the same three-month period in 2006. Our investment in Ventura Foods, our vegetable oil-based products and packaged foods joint venture, contributed reduced earnings of $1.8 million, and Horizon Milling, our domestic and Canadian wheat milling joint ventures, contributed improved earnings of $0.7 million compared to the same period in the previous year. Ventura Foods experienced increased expenses compared to the three months ended May 31, 2006, primarily from increased general and administrative expenses, partially offset by improved product margins. Horizon Milling s results are primarily affected by US 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 increases, which will continue to depress gross margins in the milling industry. We recorded improved earnings of $0.7 from US BioEnergy, an ethanol manufacturing company, for our three months ended May 31, 2007 as compared to the same period in 2006, primarily from operating margins as US BioEnergy had additional plants put into production.

Our Energy segment generated decreased equity investment earnings of $57 thousand related to slightly lower margins in an equity investment held by NCRA, and Corporate and Other generated decreased equity investment earnings of $3 thousand, with decreased equity investment income from an insurance agency of $66 thousand, almost entirely offset by equity income from a financing and other investments as compared to the three months ended

May 31, 2006.

Table of Contents

Minority Interests. Minority interests of $61.3 million for the three months ended May 31, 2007 increased by $32.6 million (113%) compared to the three months ended May 31, 2006. This net increase was a result of more profitable operations within our majority-owned subsidiaries compared to the same three-month period in the prior year. 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 $22.0 million for the three months ended May 31, 2007 compares with $22.4 million for the three months ended May 31, 2006, resulting in effective tax rates of 8.5% and 14.1%, respectively. During the three months ended May 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 three-month periods ended May 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 fiscal 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. In our Consolidated Statements of Operations, all of our Mexican foods operations have been accounted for as discontinued operations. We recorded a slight gain for the three months ended May 31, 2006 of $50 thousand ($30 thousand, net of taxes).

Comparison of the nine months ended May 31, 2007 and 2006

General. We recorded income from continuing operations before income taxes of $500.5 million during the nine months ended May 31, 2007 compared to $378.0 million during the nine months ended May 31, 2006, an increase of $122.5 million (32%). These results reflected increased pretax earnings in all of our business segments and Corporate and Other.

Our Energy segment generated income from continuing operations before income taxes of $333.3 million for the nine months ended May 31, 2007 compared to $280.1 million for the nine months ended May 31, 2006. This increase in earnings of $53.2 million (19%) is primarily attributable to higher margins on refined fuels, which resulted mainly from changes in the refining capacity and global demand. Earnings in our propane business increased significantly, from a $1.2 million loss in the prior nine-month period to income of $8.8 million during the current nine-month period. Earnings in our transportation, renewable fuels marketing and lubricants businesses also improved during the nine months ended May 31, 2007 when compared to the same nine-month period of the previous year. Earnings in our petroleum equipment operations were down when comparing the two nine-month periods.

Our Ag Business segment generated income from continuing operations before income taxes of $108.0 million for the nine months ended May 31, 2007 compared to $67.2 million in the nine months ended May 31, 2006, an increase in earnings of $40.8 million (61%). Strong domestic grain movement, much of it driven by increased US ethanol production, contributed to improved performances by both grain marketing and country operations businesses. Our country operations earnings increased $20.3 million, primarily as a result of overall improved product margins, including historically high margins on agronomy, energy, processed sunflower and grain transactions. Market expansion into Oklahoma and Kansas also increased country operations volumes. Our grain marketing operations improved earnings by $4.0 million during the nine months ended May 31, 2007 compared with the same period in 2006, primarily from increased grain volumes. Volatility in the grain markets creates opportunities for increased grain margins, and additionally during the current year, 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 an $11.2 million increase in our share of the joint venture earnings, net of allocated internal expenses. These improved earnings were attributable to

improved margins for wholesale and retail crop nutrients products sold during the spring planting season. These improved earnings during the spring exceeded losses that were incurred earlier in fiscal 2007, which

Table of Contents

were primarily caused by declines in the realizable value of inventories due to large inventory quantities. The large inventories resulted from crop producers electing to scale back nutrient applications for the 2006 growing year because of high energy costs and lower grain prices at that time. Additionally, in our first fiscal quarter of 2007, we sold approximately 25% of our investment in CF Industries Holdings, Inc. (CF), a domestic fertilizer manufacturer in which we hold a minority interest, and 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 $47.9 million for the nine months ended May 31, 2007 compared to $21.8 million for the nine months ended May 31, 2006, an increase in earnings of $26.1 million (120%). Oilseed processing earnings increased $5.9 million during the nine months ended May 31, 2007 as compared to the same period in the prior year. This was primarily the result of improved crushing margins, partially offset by reduced oilseed refining margins. While volumes stayed fairly consistent at our two crushing facilities, oilseed crushing margins showed significant improvement when comparing the nine months ended May 31, 2007 with the same nine-month period in the prior year. Our share of earnings from Ventura Foods, our packaged foods joint venture, net of allocated internal expenses, increased by $4.7 million during the nine months ended May 31, 2007, compared to the same period in the prior year, primarily from improved product margins. Our share of earnings from our wheat milling joint ventures, net of allocated internal expenses, reported improved earnings of $2.3 million for the nine months ended May 31, 2007, compared to the same period in the prior year. 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 $2.1 million during the nine months ended May 31, 2007, compared to the same period in the prior year. 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 initial public offering (IPO), and in December 2006, the IPO was completed. The affect 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 $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 changed slightly, and accordingly, our gain was adjusted down by $0.3 million, to bring the net gain to a total of $11.1 million.

Corporate and Other generated income from continuing operations before income taxes of $11.4 million for the nine months ended May 31, 2007 compared to $8.9 million in the nine months ended May 31, 2006, an increase in earnings of $2.5 million (28%). This improvement is primarily attributable to our business solutions hedging services.

Net Income. Consolidated net income for the nine months ended May 31, 2007 was $456.4 million compared to $331.0 million for the nine months ended May 31, 2006, which represents a $125.4 million (38%) increase.

Revenues. Consolidated revenues were $12.2 billion for the nine months ended May 31, 2007 compared to $10.4 billion for the nine months ended May 31, 2006, which represents a $1.8 billion (18%) 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 receives 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 $5.6 billion increased by $444.1 million (9%) during the nine months ended May 31, 2007 compared to the nine months ended May 31, 2006. During the nine months ended May 31, 2007 and 2006, our Energy segment recorded revenues from our Ag Business segment of $171.2 million and $167.2 million, respectively. The revenues net increase of $444.1 million is comprised of a net increase of $415.9 million in sales volume and a $28.2 million increase related to price appreciation on refined fuels

and propane products. The net change in revenues includes $548.3 million from our ethanol marketing venture, which we acquired in April of fiscal 2006. Refined fuels

Table of Contents

revenues decreased $3.7 million (less than 1%), of which $6.4 million was related to a net average selling price decrease, partially offset by a $2.7 million increase related to volumes, compared to the same period in the previous year. The sales price of refined fuels decreased only slightly, while volumes increased less than 1% when comparing the nine months ended May 31, 2007 with the same period a year ago. Lower crude oil prices during the first nine months of this fiscal year compared to the same nine-month period last fiscal year 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 $126.9 million (20%), of which $162.6 million was related to decreased volumes, partially offset by $35.7 million which was related to a net average selling price increase when compared to the same period in the previous year. Propane sales volume decreased 24% in comparison to the same period of the prior year, 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 nine months ended May 31, 2007 compared to the same period in 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 $6.1 billion increased $1.4 billion (29%) during the nine months ended May 31, 2007 compared to the nine months ended May 31, 2006. Grain revenues in our Ag Business segment totaled $5,031.5 million and $3,824.4 million during the nine months ended May 31, 2007 and 2006, respectively. Of the grain revenues increase of $1,207.1 million (32%), $779.6 million is due to increased average grain selling prices and $427.5 million is attributable to increased volumes during the nine months ended May 31, 2007 compared to the same period last fiscal year. The average sales price of all grain and oilseed commodities sold reflected an increase of $0.87 per bushel (20%). 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 commodity prices 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 $1.47, $1.25 and $1.04, respectively, when compared to the prices of those same grains for the nine months ended May 31, 2006. Volumes increased 9% during the nine months ended May 31, 2007 compared with the same period of a year ago. Corn had the largest volume increase compared to the nine months ended May 31, 2006. Our Ag Business segment non-grain product revenues of $965.6 million increased by $151.3 million (19%) during the nine months ended May 31, 2007 compared to the nine months ended May 31, 2006, primarily the result of increased revenues of crop nutrients, energy, seed, feed, processed sunflower and crop protection products. Other revenues within our Ag Business segment of $90.4 million during the nine months ended May 31, 2007 decreased $1.1 million (1%) compared to the nine months ended May 31, 2006.

Our Processing segment revenues, after elimination of intersegment revenues, of $526.2 million increased $67.5 million (15%) during the nine months ended May 31, 2007 compared to the nine months ended May 31, 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 4%, accounting for an increase in revenues of $9.5 million, and a higher average sales price of processed oilseed and other revenues increased total revenues for this segment by $19.8 million. Oilseed refining revenues increased $35.7 million (17%), of which $25.6 million was due to a higher average sales price and $10.1 million was due to a net increase in sales volume. The average selling price of processed oilseed increased $14 per ton and the average selling price of refined oilseed products increased $0.03 per pound compared to the same period of the previous year. These changes in the average selling price of products are primarily driven by the higher price of soybeans.

Cost of Goods Sold. Cost of goods sold of $11.5 billion increased $1.8 billion (18%) during the nine months ended May 31, 2007 compared to the nine months ended May 31, 2006.

Our Energy segment cost of goods sold, after elimination of intersegment costs, of $5.1 billion increased by $364.7 million (8%) during the nine months ended May 31, 2007 compared to the same period of the prior

Table of Contents

year. The net change in cost includes $542.1 million 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 average per gallon costs of refined fuels. On a more product-specific basis, the average cost of refined fuels decreased by $0.01 (1%) per gallon, while volumes increased slightly (less than 1%) compared to the nine months ended May 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 nine months ended May 31, 2006. The average per unit cost of crude oil purchased for the two refineries decreased 5% compared to the nine months ended May 31, 2006. The propane volumes decreased 24%, while the average cost of propane increased $0.04 (4%) compared to the nine months ended May 31, 2006.

Our Ag Business segment cost of goods sold, after elimination of intersegment costs, of $5.9 billion increased $1.3 billion (29%) during the nine months ended May 31, 2007 compared to the same period of the prior year. Grain cost of goods sold in our Ag Business segment totaled $4,954.6 million and $3,758.4 million during the nine months ended May 31, 2007 and 2006, respectively. The cost of grains and oilseed procured through our Ag Business segment increased $1,196.2 million (32%) compared to the nine months ended May 31, 2006. This is the result of a 9% increase in bushels sold along with an increase of $0.87 (21%) average cost per bushel as compared to the prior year. Corn had the largest volume increase compared to the nine months ended May 31, 2006. Commodity prices on corn, spring wheat and soybeans have increased compared to the prices that were prevalent during the same nine-month period in 2006. Our Ag Business segment cost of goods sold, excluding the cost of grains procured through this segment, increased during the nine months ended May 31, 2007 compared to the nine months ended May 31, 2006, primarily due to higher volumes and price per unit costs of crop nutrient, energy, seed, feed, crop protection 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 $501.3 million, increased $61.0 million (14%) compared to the nine months ended May 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 $175.6 million for the nine months ended May 31, 2007 increased by $6.7 million (4%) compared to the nine months ended May 31, 2006. The net increase of $6.7 million is primarily due to an increase of $0.8 million for educational funding and increased performance-based incentive plan expense, in addition to other employee benefits and general inflation, partially offset by a $2.4 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 August 2006, US BioEnergy 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 affect 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 $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 changed slightly, and accordingly, our gain was adjusted down by $0.3 million, to bring the net gain to a total of $11.1 million. This net gain is reflected in our Processing segment.

Interest, net. Net interest of $26.0 million for the nine months ended May 31, 2007 decreased $2.3 million (8%) compared to the nine months ended May 31, 2006. Interest expense for the nine months ended May 31, 2007 and 2006 was $37.7 million and $37.6 million, respectively. Interest income, generated primarily from marketable securities, was $11.7 million and $9.3 million, for the nine months ended May 31, 2007 and 2006, respectively. The interest

expense increase of $0.1 million (less than 1%) 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 $4.3 million. For the nine

Table of Contents

months ended May 31, 2007 and 2006, we capitalized interest of $7.8 million and $3.5 million, respectively, related to capitalized construction projects. The increase in capitalized interest primarily relates to financing interest on our coker project, 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 $211.0 million during the nine months ended May 31, 2007 compared to the nine months ended May 31, 2006, and the average short-term interest rate increased 0.77%. The interest income increase of $2.4 million (26%) was primarily in Corporate and Other, and relates to an increase in interest income in our hedging services.

Equity Income from Investments. Equity income from investments of $84.3 million for the nine months ended May 31, 2007 increased $26.0 million (45%) compared to the nine months ended May 31, 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 $0.1 million for Energy, $12.4 million for Ag Business, $13.1 million for Processing and $0.4 million for Corporate and Other.

Our Ag Business segment generated improved earnings of $12.4 million from equity investments. Our share of equity investment earnings or losses in Agriliance increased earnings by $11.1 million and is primarily attributable to improved margins for wholesale and retail crop nutrients products sold during the spring planting season. These improved earnings during the spring exceeded losses that were incurred earlier in fiscal 2007, which were primarily caused by declines in the realizable value of inventories due to large inventory quantities. The large inventories resulted from crop producers electing to scale back nutrient applications for the 2006 growing year because of high energy costs and lower grain prices at that time. The Agriliance crop nutrients volumes were up 5% over last year. Our investment in a Canadian agronomy joint venture contributed a decrease in earnings of $0.3 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 is owned jointly (50/50) with Multigrain Comercia, an agricultural commodities business headquartered in Sao Paulo, Brazil. We recorded income of $0.7 million during the nine months ended May 31, 2007 for that equity investment. Our wheat exporting investment in United Harvest contributed improved earnings of $0.3 million, and our equity income from our investment in TEMCO, a joint venture which exports primarily corn and soybeans, also recorded improved earnings of $1.3 million. Our country operations reported an aggregate decrease in equity investment earnings of $0.7 million for several small equity investments.

Our Processing segment generated improved earnings of $13.1 million from equity investments. During fiscal years 2006 and 2007, we invested $105.3 million in US BioEnergy, an ethanol manufacturing company, and recorded improved earnings of $6.7 million during the nine months ended May 31, 2007 compared to the same period in 2006, primarily from operating margins as US BioEnergy added additional plants into production compared to the prior period. Ventura Foods, our vegetable oil-based products and packaged foods joint venture, recorded improved earnings of $4.2 million, and Horizon Milling, our domestic and Canadian wheat milling joint ventures, recorded improved earnings of $2.1 million compared to the same period in the previous year. 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 US 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 increases, which will continue to depress gross margins in the milling industry.

Our Energy segment generated increased equity investment earnings of $0.1 million related to improved margins in an equity investment held by NCRA, and Corporate and Other generated improved earnings of $0.4 million from equity

investment earnings, primarily from Cofina, our financial services equity investment, partially offset by slightly reduced earnings from an insurance equity investment as compared to the nine months ended May 31, 2006.

Table of Contents

Minority Interests. Minority interests of $94.7 million for the nine months ended May 31, 2007 increased by $24.6 million (35%) compared to the nine months ended May 31, 2006. This net increase was a result of more profitable operations within our majority-owned subsidiaries compared to the same nine-month period in the prior year. 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 $44.2 million for the nine months ended May 31, 2007 compares with $47.2 million for the nine months ended May 31, 2006, resulting in effective tax rates of 8.8% and 12.5%, respectively. During the nine months ended May 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 nine-month periods ended May 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 our fiscal 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. In our Consolidated Statements of Operations, all of our Mexican foods operations have been accounted for as discontinued operations. The income recorded for the nine months ended May 31, 2006 was $0.2 million ($0.1 million, net of taxes), primarily the result of the sale of our remaining assets.

Liquidity and Capital Resources

On May 31, 2007, we had working capital, defined as current assets less current liabilities, of $917.5 million and a current ratio, defined as current assets divided by current liabilities, of 1.4 to 1.0, compared to working capital of $829.0 million and a current ratio of 1.5 to 1.0 on August 31, 2006. On May 31, 2006, we had working capital of $799.0 million and a current ratio of 1.4 to 1.0 compared to working capital of $758.7 million and a current ratio of 1.4 to 1.0 on August 31, 2005. We anticipate that working capital will be drawn down during the current fiscal year due to capital expenditures related to the coker unit project at our Laurel, Montana refinery, as described below in Cash Flows from Investing Activities . The capital expenditures related to this project are anticipated to be approximately $238.0 million during our current fiscal year.

Our current committed credit facility consists of a five-year revolver in the amount of $1.1 billion, with a potential addition for future expansion of up to $200 million. This credit facility was established with a syndicate of domestic and international banks, and our inventories and receivables financed with it are highly liquid. On May 31, 2007, we had $475.0 million outstanding on this line of credit compared with $121.8 million outstanding on the credit facility in place on May 31, 2006. In addition, we have two commercial paper programs totaling $125 million with banks participating in our five-year revolver. On May 31, 2007, we had $44.1 million of commercial paper outstanding. Our highest points of seasonal borrowings are typically from January through early summer. We believe that we have adequate liquidity to cover any increase in net operating assets and liabilities in the foreseeable future, including the working capital related to the potential acquisition of the wholesale crop nutrients business of Agriliance, as discussed in Recent Events .

Cash Flows from Operations

Our 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 preceding

cautionary statements, and may affect net operating assets and liabilities, and liquidity.

Table of Contents

Our cash flows provided by operating activities were $262.6 million for the nine months ended May 31, 2007, compared to $278.2 million for the nine months ended May 31, 2006. Although cash flows provided by operating activities were comparable in total for the two nine-month periods, there was volatility in the components of the cash flows, which primarily include greater net income and a larger net increase in operating assets and liabilities during the nine months ended May 31, 2007 compared to the same period in the prior year. Grain prices during the current fiscal year have been quite volatile. Because we hedge most of our grain positions with futures contracts on regulated exchanges, volatile prices create margin calls (reflected in other current assets) which are a use of cash. In addition, higher commodity prices affect inventory and receivable balances which consume cash until inventories are sold and receivables are collected.

Our operating activities provided net cash of $262.6 million during the nine months ended May 31, 2007. Net income of $456.4 million and net non-cash expenses and cash distributions from equity investments of $165.9 million were partially offset by an increase in net operating assets and liabilities of $359.7 million. The primary components of net non-cash expenses and cash distributions from equity investments included depreciation and amortization of $103.4 million, minority interests of $94.7 million and deferred tax expense of $13.7 million, which were partially offset by income from equity investments net of redemptions from those investments of $24.2 million, a pretax gain of $5.3 million from the sale of 540,000 shares of our CF stock, included in our Ag Business segment, and an $11.2 million non-cash gain in our Processing segment from our ownership changes in US BioEnergy and their IPO transaction as previously discussed in Results of Operations . The increase in net operating assets and liabilities was caused primarily by an increase in trade receivables net of accounts payable of $212.7 million, in addition to an increase of $246.8 million in derivative assets and hedging deposits (included in other current assets), partially offset by an increase in derivative liabilities of $68.5 million, due to increases in grain prices on May 31, 2007 when compared to August 31, 2006. Increases in inventories also caused an increase in net operating assets and liabilities. On May 31, 2007, the market prices of our three primary grain commodities, corn, soybeans and spring wheat, increased by $1.58 per bushel (68%), $2.64 per bushel (49%) and $0.82 per bushel (18%), respectively, when compared to August 31, 2006. In addition to grain prices affecting grain inventories, our feed and farm supplies inventories in our Ag Business segment increased as well during the period (31%), primarily at our country operations retail locations mainly due to the spring planting season.

Our operating activities provided net cash of $278.2 million during the nine months ended May 31, 2006. Net income of $331.0 million and net non-cash expenses and cash distributions from equity investments of $196.9 million, were partially offset by an increase in net operating assets and liabilities of $249.7 million. The primary components of net non-cash expenses and cash distributions from equity investments included depreciation and amortization of $92.3 million, minority interests of $70.1 million and deferred tax expense of $44.5 million, partially offset by income from equity investments net of redemptions from those investments of $7.1 million. The increase in net operating assets and liabilities was primarily due to an increase in inventories and a decrease in payables. The increase in inventories was due to an increase in grain and crude oil prices as well as an increase in feed and farm supplies inventories. On May 31, 2006, the market prices of two of our primary grain commodities, spring wheat and corn, increased by $1.10 per bushel (31%) and $0.50 per bushel (25%), respectively, and soybeans, another high volume commodity, saw only a slight decline in price of $0.07 per bushel (1%) when compared to August 31, 2005. In general, crude oil prices increased $2.35 per barrel (3%) on May 31, 2006 compared to August 31, 2005. Our feed and farm supplies inventories increased significantly as well during the period, primarily seed and crop protection inventories at our country operations retail locations due to the spring planting season. The decrease in accounts payable is primarily related to our Energy segment. NCRA had a decrease in payables on May 31, 2006, compared to August 31, 2005, mainly due to a decrease in crude oil purchased. The decrease in purchased crude oil was in anticipation of a planned major maintenance turnaround, during which time the refinery production would be shut down. The turnaround took place during the fourth quarter of fiscal 2006.

Crude oil prices are expected to be volatile in the foreseeable future, but cash from our related inventories and receivables are recovered in a relatively short period, thus somewhat mitigating the effect on our operating assets and liabilities. Grain prices are influenced significantly by global projections of grain stocks available until the next harvest. We anticipate that demand for corn in ethanol production will continue to create relatively high

Table of Contents

prices and price volatility for that commodity in fiscal 2007. Due to the higher corn prices, additional acres have been planted to grow corn this year, with some of those acres displacing acres previously planted for soybeans and wheat. This shift will likely result in higher prices for these other commodities as supply is decreased.

Cash usage in our operating activities is usually lowest during our fourth fiscal quarter. Historically by this time we have sold a large portion of our seasonal agronomy related inventories in our Ag Business segment operations and continue to collect cash from the related receivables.

Cash Flows from Investing Activities

For the nine months ended May 31, 2007 and 2006, the net cash flows used in our investing activities totaled $373.7 million and $226.2 million, respectively.

The acquisition of property, plant and equipment comprised the primary use of cash totaling $249.6 million and $161.0 million for the nine months ended May 31, 2007 and 2006, respectively. For the year ending August 31, 2007, we expect to spend approximately $391.0 million for the acquisition of property, plant and equipment. Included in our projected capital spending through fiscal year 2008 is the installation of a coker unit at our Laurel, Montana refinery, along with other refinery improvements, which will allow 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. The coker unit is anticipated to increase yields by approximately 14%. The total cost for this project was expected to be approximately $325.0 million, of which approximately $238.0 million was expected to be spent during fiscal 2007, with completion planned during fiscal 2008. With increasing costs for steel and concrete as well as labor costs related to labor shortages, the project will likely exceed the initial estimates. Although additional cost may be incurred, based on current market conditions, we anticipate that the initial economics of the project will still be met, and we will continue to fund the project with cash flows from operations. Total expenditures for this project as of May 31, 2007, were $214.6 million, of which $151.8 million were incurred during the nine months ended May 31, 2007, compared to expenditures of $28.5 million which were incurred during the nine months ended May 31, 2006. During the nine months ended May 31, 2006, capital expenditures for projects now complete that related to the U.S. Environmental Protection Agency (EPA) low sulfur fuel regulations at our Laurel, Montana refinery and NCRA s McPherson, Kansas refinery were $56.2 million.

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, which resulted from nearly three years of discussions, take the form of consent decrees filed with the U.S. District Court for the District of Montana (Billings Division) and the U.S. 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 the next several years. The consent decrees also require us and NCRA, to pay approximately $0.5 million in aggregate civil cash penalties. As of May 31, 2007, the aggregate capital expenditures for us and NCRA related to these settlements were approximately $21 million, and we anticipate spending an additional $9 million over the next five years. We do not believe that the settlements will have a material adverse effect on us or NCRA.

Investments made during the nine months ended May 31, 2007 and 2006, totaled $84.2 million and $73.0 million, respectively. We invested $22.2 million for an equity position in a Brazil-based grain handling and merchandising company, Multigrain S.A., which is owned jointly (50/50) with Multigrain Comercio, an agricultural commodities business headquartered in Sao Paulo, Brazil, and is included in our Ag Business segment. This venture, which includes grain storage and export facilities, builds on our South American soybean origination, and helps meet

customer needs year-round. Our grain marketing operations continue to explore other opportunities to establish a presence in other emerging grain origination and export markets. We have also invested $15.6 million in a new Horizon Milling venture (24% CHS ownership) during the nine months ended May 31, 2007, to acquire the Canadian grain-based foodservice and industrial businesses of Smucker Foods of Canada, which includes three flour milling operations and two dry baking mixing facilities

Table of Contents

in Canada. During the nine months ended May 31, 2007, we made an additional investment of $35.3 million in US BioEnergy, bringing our total cash investments for common stock in the company to $105.3 million. Prior investments in US BioEnergy include $70.0 million of stock purchased during the nine months ended May 31, 2006. 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 initial public offering (IPO), and in December 2006, the IPO was completed. The affect 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 $11.4 million on our investment during the six months ended February 28, 2007 to reflect our proportionate share of the increase in the underlying equity of US BioEnergy. During the three months ended May 31, 2007, our ownership interest changed slightly, and accordingly, our gain was adjusted down by $0.3 million, to bring the net gain to a total of $11.1 million. This gain is reflected in our Processing segment. Based upon the market price of US BioEnergy s stock of $12.88 per share on May 31, 2007, our investment had a market value of approximately $185.5 million. We are recognizing earnings of US BioEnergy to the extent of our ownership interest using the equity method of accounting.

During the nine months ended May 31, 2007, changes in notes receivable resulted in a decrease in cash flows of $54.2 million, of which $8.0 million resulted from a note receivable related to our investment in Multigrain S.A., with the balance primarily from related party notes receivables at NCRA from its minority owners, Growmark, Inc. and MFA Oil Company. During the nine months ended May 31, 2006, the changes in notes receivable resulted in a decrease in cash flows of $5.7 million, primarily from related party notes receivables at NCRA.

During the nine months ended May 31, 2007, acquisitions of intangible assets were $8.1 million and $2.9 million, respectively. The cash acquisitions during the nine months ended May 31, 2007, include $7.0 million related to our lubricants business in our Energy segment.

Partially offsetting our cash outlays for investing activities were proceeds from the disposition of property, plant and equipment of $9.3 million and $9.0 million for the nine months ended May 31, 2007 and 2006, respectively. Also partially offsetting cash usages were investments redeemed totaling $4.4 million and $6.3 million for the nine months ended May 31, 2007 and 2006, respectively. During the nine months ended May 31, 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%.

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. The previously established credit lines consisted of a $700.0 million 364-day revolver and a $300.0 million five-year revolver. The current committed credit facility consists of a five-year revolver in the amount of $1.1 billion, with a potential addition for future expansion of up to $200 million. The other terms of the current credit facility are the same as the terms of the credit facilities it replaced in all material respects. On May 31, 2007, interest rates for amounts outstanding on this credit facility ranged from 5.54% to 8.25%. In addition to these lines of credit, we have a revolving credit facility dedicated to NCRA, with a syndication of banks in the amount of $15.0 million committed. In December 2006, the line of credit dedicated to NCRA was renewed for an additional year. We also have a revolving line of credit dedicated to Provista Renewable Fuels Marketing, LLC (Provista), through LaSalle Bank National Association which expires in November 2007, in the amount of $25.0 million committed. On May 31, 2007, August 31, 2006 and May 31, 2006, we had total short-term indebtedness outstanding on these various facilities and other miscellaneous short-term notes payable totaling $484.5 million, $22.0 million and $140.0 million, respectively.

During the nine months ended May 31, 2007, we instituted two commercial paper programs totaling up to $125 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 $100 million at any point in time. The commercial paper programs do not increase our committed borrowing capacity in that we are required to

Table of Contents

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 May 31, 2007, we had $44.1 million of commercial paper outstanding, all with maturities of less than 60 days from their issuance with interest rates ranging from 5.57% to 5.65%.

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 the cooperative banks. This facility committed $200.0 million of long-term borrowing capacity to us, with repayments through fiscal year 2009. The amount outstanding on this credit facility was $81.2 million, $98.4 million and $102.5 million on May 31, 2007, August 31, 2006 and May 31, 2006, respectively. Interest rates on May 31, 2007 ranged from 6.02% to 7.13%. Repayments of $17.2 million and $12.3 million were made on this facility during the nine months ended May 31, 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.

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. Repayments of $11.4 million were made during each of the nine months ended May 31, 2007 and 2006.

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 fiscal years 2007 through 2013. Repayments of $17.7 million were made on the first series during the nine months ended May 31, 2007. 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 fiscal years 2012 through 2018.

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. The amendment expanded the uncommitted facility from $70.0 million to $150.0 million.

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 the fiscal years 2011 through 2015.

Through NCRA, we had revolving term loans outstanding of $3.8 million, $6.0 million and $6.8 million on May 31, 2007, August 31, 2006 and May 31, 2006, respectively. Interest rates on May 31, 2007 ranged from 6.48% to 6.99%. Repayments of $2.3 million were made during each of the nine months ended May 31, 2007 and 2006.

On May 31, 2007, we had total long-term debt outstanding of $690.9 million, of which $87.1 million was bank financing, $583.0 million was private placement debt and $20.8 million was industrial development revenue bonds and other notes and contracts payable. The aggregate amount of long-term debt payable presented in the Management s

Discussion and Analysis in our Annual Report on Form 10-K for the year ended August 31, 2006 has not materially changed during the nine months ended May 31, 2007. On May 31, 2006, we had long-term debt outstanding of $743.8 million. Our long-term debt is unsecured except for other notes and contracts in the amount of $8.4 million; however, restrictive covenants under various agreements have requirements for maintenance of minimum working capital levels and other financial ratios. In addition, NCRA term loans of $3.8 million are collateralized by NCRA s investment in CoBank. We were in compliance with all debt covenants and restrictions as of May 31, 2007.

Table of Contents

In December 2006, NCRA entered into an agreement with the City of McPherson, Kansas related to certain of its ultra-low sulfur fuel assets (cost of approximately $325 million). The City of McPherson issued $325 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 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 final maturity in ten years.

During the nine months ended May 31, 2007 and 2006, we had no borrowings on a long-term basis, and during the same periods we repaid long-term debt of $54.2 million and $30.4 million, respectively.

Distributions to minority owners for the nine months ended May 31, 2007 and 2006 were $32.7 million and $51.6 million, respectively, and were related to NCRA. In June 2007, NCRA made additional distributions to its owners, of which $44.0 million was to minority owners.

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 fiscal year ended August 31, 2006, were distributed during the nine months ended May 31, 2007. The cash portion of these distributions, deemed by the Board of Directors to be 35%, was $133.1 million. During the nine months ended May 31, 2006, we distributed cash patronage of $62.5 million.

Effective September 1, 2004, 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 older than 10 years held by them, and another for individuals who are eligible for equity redemptions at age 72 or upon death. Effective September 1, 2006, the 10-year aging factor on the retirement of equity on a pro-rata basis was eliminated for equity redemptions to be paid in fiscal year 2007. 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 an additional $50.0 million of redemptions to be paid in fiscal year 2007, targeting older capital equity certificates. In accordance with authorization from the Board of Directors, we expect total redemptions related to the year ended August 31, 2006, that will be distributed in fiscal year 2007, to be approximately $112.4 million, of which $64.9 million was redeemed in cash during the nine months ended May 31, 2007, compared to $52.7 million during the nine months ended May 31, 2006. We also redeemed $35.9 million of capital equity certificates during the nine months ended May 31, 2007, by issuing shares of our 8% Cumulative Redeemable Preferred Stock (Preferred Stock) pursuant to a registration statement filed with the Securities and Exchange Commission. During the nine months ended May 31, 2006, we redeemed $23.8 million of capital equity certificates by issuing shares of our Preferred Stock.

Our Preferred Stock is listed on the NASDAQ Global Select Market under the symbol CHSCP. On May 31, 2007, we had 7,240,221 shares of Preferred Stock outstanding with a total redemption value of approximately $181.0 million, excluding accumulated dividends. Our Preferred Stock accumulates dividends at a rate of 8% per year (dividends are

payable quarterly), and is redeemable at our option after February 1, 2008. At this time, we have no present intention of redeeming any preferred stock. Dividends paid on our

Table of Contents

Preferred stock during the nine months ended May 31, 2007 and 2006 were $9.5 million and $7.9 million, respectively.

Off Balance Sheet Financing Arrangements

Lease Commitments:

Our lease commitments presented in Management s Discussion and Analysis in our Annual Report on Form 10-K for the year ended August 31, 2006 have not materially changed during the nine months ended May 31, 2007.

Guarantees:

We are a guarantor for lines of credit for related companies. Our bank covenants allow maximum guarantees of $150.0 million, of which $37.1 million was outstanding on May 31, 2007. In addition, our bank covenants allow for guarantees dedicated solely for NCRA in the amount of $125.0 million, for which there are no outstanding guarantees. All outstanding loans with respective creditors are current as of May 31, 2007.

Debt:

There is no material off balance sheet debt.

Contractual Obligations

Our contractual obligations are presented in Management s Discussion and Analysis in our Annual Report on Form 10-K for the year ended August 31, 2006. Other than the balance sheet changes in payables and long-term debt, increases in grain purchase contracts and additional commitments for costs related to the coker project at our Laurel refinery, the total obligations have not materially changed during the nine months ended May 31, 2007.

Critical Accounting Policies

Our Critical Accounting Policies are presented in our Annual Report on Form 10-K for the year ended August 31, 2006. There have been no changes to these policies during the nine months ended May 31, 2007.

Effect of Inflation and Foreign Currency Transactions

Inflation and foreign currency fluctuations have not had a significant effect on our operations. We have some grain marketing, wheat milling and energy operations that impact our exposure to foreign currency fluctuations, but to date, there have been no material effects.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for income taxes recognized in an enterprise s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. FIN 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS No. 158). SFAS No. 158 requires that employers recognize on a prospective basis the funded status of their defined benefit pension and other postretirement plans on their consolidated balance sheet and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits

Table of Contents

that arise during the period but are not recognized as components of net periodic benefit cost. SFAS No. 158 also requires additional disclosures in the notes to financial statements. SFAS No. 158 is effective as of the end of fiscal years ending after December 15, 2006.

Based on the funded status of our defined benefit pension and postretirement medical plans as of the most recent measurement dates, we would be required to increase our net liabilities for pension and postretirement medical benefits upon adoption of SFAS No. 158, which would result in a decrease to owners equity in our Consolidated Balance Sheet. The ultimate amounts recorded are highly dependent on a number of assumptions, including the discount rates in effect in 2007, the actual rate of return on pension assets for 2007 and the tax effects of the adjustment. Changes in these assumptions since our last measurement date could increase or decrease the expected impact of implementing SFAS No. 158 in our consolidated financial statements at August 31, 2007.

In September 2006, the FASB issued FASB Staff Position (FSP) AUG AIR-1, Accounting for Planned Major Maintenance Activities , addressing the accounting for planned major maintenance activities which includes refinery turnarounds. This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods but allows the alternative deferral method. This FSP shall be applied to the first fiscal year beginning after December 15, 2006 (our fiscal year 2008). We are currently using the accrue-in-advance method of accounting, and are in the process of assessing the impact this FSP will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements to increase consistency and comparability in fair value measurements by defining fair value, establishing a framework for measuring fair value in generally accepted accounting principles, and expanding disclosures about fair value measurements. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. SFAS No. 157 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. 157 will have on our consolidated results of operations and financial condition.

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.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

We did not experience any material changes in market risk exposures for the period ended May 31, 2007, that affect the quantitative and qualitative disclosures presented in our Annual Report on Form 10-K for the year ended August 31, 2006.

Item 4. ***Controls and Procedures***

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of May 31, 2007. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of that date, our disclosure controls and procedures were effective.

During the third fiscal quarter ended May 31, 2007, there was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. ***Not applicable***

Item 1A. ***Not applicable***

Item 2. ***Not applicable***

Item 3. ***Not applicable***

Item 4. ***Not applicable***

Item 5. ***Not applicable***

Item 6. ***Exhibits***

Exhibit	Description
10.1	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 Exhibit 10.1 to our Current Report on Form 8-K filed May 11, 2007)
10.2	Tenth Amendment to Credit Agreement (Term Loan), dated May 8, 2007, by and among CHS Inc. and CoBank, ACB (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed May 11, 2007)
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHS Inc.
(Registrant)

/s/ John Schmitz

John Schmitz
Executive Vice President and
Chief Financial Officer

July 12, 2007