

CHS INC
Form 10-Q
April 03, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended February 28, 2013.

or

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

(State or other jurisdiction of incorporation or organization)

5500 Cenex Drive

Inver Grove Heights, Minnesota 55077

(Address of principal executive office, including zip code)

41-0251095

(I.R.S. Employer Identification Number)

(651) 355-6000

(Registrant's Telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

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

YES NO

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

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

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

YES NO

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

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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 February 28, 2013.

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ITEM 1. FINANCIAL STATEMENTS
 CHS INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (Unaudited)

	February 28, 2013	August 31, 2012	February 29, 2012
	(Dollars in thousands)		
ASSETS			
Current assets:			
Cash and cash equivalents	\$478,341	\$314,029	\$508,062
Receivables	3,264,759	3,590,742	2,669,618
Inventories	3,626,673	3,203,972	3,306,227
Derivative assets	288,473	849,905	208,270
Margin deposits	367,113	1,138,535	392,407
Other current assets	802,138	347,970	534,539
Total current assets	8,827,497	9,445,153	7,619,123
Investments	693,640	673,388	612,062
Property, plant and equipment	2,967,181	2,786,324	2,636,847
Other assets	464,883	518,286	498,963
Total assets	\$12,953,201	\$13,423,151	\$11,366,995
LIABILITIES AND EQUITIES			
Current liabilities:			
Notes payable	\$858,496	\$803,622	\$636,071
Current portion of long-term debt	93,363	108,211	92,793
Current portion of mandatorily redeemable noncontrolling interest	65,227	65,981	65,265
Customer margin deposits and credit balances	279,052	808,047	254,448
Customer advance payments	1,292,887	685,520	905,781
Checks and drafts outstanding	208,807	205,060	190,333
Accounts payable	2,049,731	2,355,847	1,838,650
Derivative liabilities	217,270	509,005	296,242
Accrued expenses	527,364	476,589	439,766
Dividends and equities payable	266,180	578,809	203,724
Total current liabilities	5,858,377	6,596,691	4,923,073
Long-term debt	1,296,207	1,332,142	1,396,731
Mandatorily redeemable noncontrolling interest	206,788	268,726	265,424
Other liabilities	736,981	752,269	644,478
Commitments and contingencies			
Equities:			
Equity certificates	3,048,499	3,109,616	2,652,236
Preferred stock	319,368	319,368	319,368
Accumulated other comprehensive loss	(230,334)	(232,587)	(192,081)
Capital reserves	1,696,380	1,258,944	1,343,916
Total CHS Inc. equities	4,833,913	4,455,341	4,123,439
Noncontrolling interests	20,935	17,982	13,850
Total equities	4,854,848	4,473,323	4,137,289
Total liabilities and equities	\$12,953,201	\$13,423,151	\$11,366,995

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

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CHS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
	(Dollars in thousands)			
Revenues	\$9,882,378	\$8,843,812	\$21,592,316	\$18,577,971
Cost of goods sold	9,411,731	8,612,235	20,576,151	17,706,387
Gross profit	470,647	231,577	1,016,165	871,584
Marketing, general and administrative	134,680	126,556	259,162	239,076
Operating earnings	335,967	105,021	757,003	632,508
Loss (gain) on investments	(45	) 484	(45	) 446
Interest, net	53,385	34,631	120,595	55,438
Equity income from investments	(16,760	) (19,952	) (44,832	) (44,081
Income before income taxes	299,387	89,858	681,285	620,705
Income taxes	23,869	10,623	59,886	52,588
Net income	275,518	79,235	621,399	568,117
Net income attributable to noncontrolling interests	432	765	2,606	73,439
Net income attributable to CHS Inc.	\$275,086	\$78,470	\$618,793	\$494,678

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

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CHS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
	(Dollars in thousands)			
Net income	\$275,518	\$79,235	\$621,399	\$568,117
Other comprehensive income (loss), net of tax:				
Pension and postretirement costs arising during period, net of tax benefit of \$27, \$125, \$27, and \$125, respectively	(43)	(193)	(43)	(193)
Amortization of unrecognized pension and postretirement costs, net of tax expense of \$44, \$11, \$64 and \$13, respectively	71	7	104	20
Unrealized net gain on available for sale investments, net of tax expense of \$331, \$353, \$338, and \$316, respectively	536	686	548	488
Cash flow hedges, net of tax expense of \$261, \$167, \$352, and \$210, respectively	424	94	571	324
Foreign currency translation adjustment, net of tax expense (benefit) of \$629, \$(1,206), \$663 and \$(2,114), respectively	1,021	1,556	1,074	(3,262)
Other comprehensive income (loss), net of tax	2,009	2,150	2,254	(2,623)
Comprehensive income	277,527	81,385	623,653	565,494
Less: comprehensive income attributable to noncontrolling interests	432	765	2,606	73,439
Comprehensive income attributable to CHS Inc.	\$277,095	\$80,620	\$621,047	\$492,055

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

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CHS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months Ended	
	February 28, 2013	February 29, 2012
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income including noncontrolling interests	\$621,399	\$568,117
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	116,912	104,732
Amortization of deferred major repair costs	14,779	18,044
Income from equity investments	(44,832)	(44,081)
Distributions from equity investments	39,492	50,769
Noncash patronage dividends received	(4,277)	(2,438)
Gain on sale of property, plant and equipment	(2,725)	(2,916)
(Gain) loss on investments	(45)	446
Unrealized loss (gain) on crack spread contingent liability	13,471	(4,185)
Deferred taxes	(315)	1,944
Other, net	293	438
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	308,386	393,142
Inventories	(404,607)	(466,016)
Derivative assets	575,432	428,996
Margin deposits	786,409	691,191
Other current assets and other assets	(444,051)	(205,241)
Customer margin deposits and credit balances	(529,860)	(497,420)
Customer advance payments	600,341	286,325
Accounts payable and accrued expenses	(280,425)	(509,292)
Derivative liabilities	(302,396)	(187,220)
Other liabilities	(33,321)	(19,500)
Net cash provided by operating activities	1,030,060	605,835
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(264,332)	(197,887)
Proceeds from disposition of property, plant and equipment	3,900	1,843
Expenditures for major repairs	(9,248)	(19,836)
Investments in joint ventures and other	(9,718)	(15,223)
Investments redeemed	3,132	2,599
Changes in notes receivable	46,963	42,423
Business acquisitions, net of cash acquired	(8,074)	(158,214)
Other investing activities, net	(397)	1,742
Net cash used in investing activities	(237,774)	(342,553)
Cash flows from financing activities:		
Changes in notes payable	55,994	(146,687)
Principal payments on long-term debt	(50,871)	(39,865)
Mandatorily redeemable noncontrolling interest payments	(65,981)	
Payments for bank fees		(12,390)

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Changes in checks and drafts outstanding	2,755	(8,374)
Distributions to noncontrolling interests	(740) (77,519)
Preferred stock dividends paid	(12,272	) (12,272)
Retirements of equities	(179,369	) (130,566)
Cash patronage dividends paid	(380,892	) (260,126)
Other financing activities, net	1,112	(17)
Net cash used in financing activities	(630,264	) (687,816)
Effect of exchange rate changes on cash and cash equivalents	2,290	(5,089)
Net increase (decrease) in cash and cash equivalents	164,312	(429,623)
Cash and cash equivalents at beginning of period	314,029	937,685	
Cash and cash equivalents at end of period	\$478,341	\$508,062	

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

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CHS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(dollars in thousands)

Note 1 Accounting Policies

Basis of Presentation and Reclassifications

The unaudited Consolidated Balance Sheets as of February 28, 2013 and February 29, 2012, the Consolidated Statements of Operations for the three and six months ended February 28, 2013 and February 29, 2012, the Consolidated Statements of Comprehensive Income for the three and six months ended February 28, 2013 and February 29, 2012, and the Consolidated Statements of Cash Flows for the six months ended February 28, 2013 and February 29, 2012, reflect in the opinion of our management, all normal recurring adjustments necessary for a fair statement of the financial position, 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. Our Consolidated Balance Sheet data as of August 31, 2012, 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, which is primarily National Cooperative Refinery Association (NCRA), included in our Energy segment. 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, 2012, included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission.

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. ASU 2011-05 requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 became effective for us during our fiscal 2013. The required disclosures of these updates are included in our Consolidated Statements of Comprehensive Income.

Derivative Financial Instruments and Hedging Activities

Our derivative instruments primarily consist of commodity and freight futures and forward contracts and, to a lesser degree, may include foreign currency and interest rate swap contracts. These contracts are economic hedges of price risk, but are not designated or accounted for as hedging instruments for accounting purposes, with the exception of certain interest rate swap contracts which are economic hedges of forecasted debt issuances and were accounted for as cash flow hedges. Derivative instruments are recorded on our Consolidated Balance Sheets at fair values as discussed in Note 9, Fair Value Measurements.

We have netting arrangements for our exchange-traded futures and options contracts and certain over-the-counter (OTC) contracts, which are recorded on a net basis in our Consolidated Balance Sheets. Although accounting

standards permit a party to a master netting arrangement to offset fair value amounts recognized for derivative instruments against the right to reclaim cash collateral or the obligation to return cash collateral under the same master netting arrangement, we have not elected to net our margin deposits.

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As of February 28, 2013, August 31, 2012 and February 29, 2012, we had the following outstanding purchase and sales contracts:

	February 28, 2013		August 31, 2012		February 29, 2012	
	Purchase Contracts	Sales Contracts	Purchase Contracts	Sales Contracts	Purchase Contracts	Sales Contracts
	(Units in thousands)					
Grain and oilseed - bushels	605,309	906,758	722,895	1,074,535	550,564	803,266
Energy products - barrels	12,103	21,575	9,047	19,561	12,913	15,348
Soy products - tons	32	333	15	215	14	252
Crop nutrients - tons	1,553	2,128	600	725	1,461	1,703
Ocean and barge freight - metric tons	933	125	1,018	183	1,211	235

As of February 28, 2013, August 31, 2012 and February 29, 2012, the gross fair values of our derivative assets and liabilities not designated as hedging instruments were as follows:

	February 28, 2013	August 31, 2012	February 29, 2012
Derivative Assets:			
Commodity and freight derivatives	\$485,219	\$1,070,800	\$456,153
Foreign exchange derivatives	15,500	978	
	\$500,719	\$1,071,778	\$456,153
Derivative Liabilities:			
Commodity and freight derivatives	\$428,866	\$727,946	\$543,470
Foreign exchange derivatives	691	2,388	72
Interest rate derivatives	418	544	586
	\$429,975	\$730,878	\$544,128

As of February 28, 2013, August 31, 2012 and February 29, 2012, the gross fair values of our derivative assets and liabilities designated as cash flow hedging instruments were as follows:

	February 28, 2013	August 31, 2012	February 29, 2012
Derivative Assets:			
Interest rate swaps	\$459		

During the second quarter of fiscal 2013, we entered into derivative contracts designated as cash flow hedging instruments that expire in fiscal 2014 with no amounts expected to be included in earnings during the next 12 months. As of February 28, 2013, August 31, 2012 and February 29, 2012, the unrealized gains deferred to accumulated other comprehensive loss were as follows:

	February 28, 2013	August 31, 2012	February 29, 2012
Gains included in accumulated other comprehensive loss, net of tax expense of \$0.2 million, \$0 million and \$0 million, respectively	\$284		

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The following table sets forth the pretax gains (losses) on derivatives not accounted for as hedging instruments that have been included in our Consolidated Statements of Operations for the three and six months ended February 28, 2013 and February 29, 2012.

	Location of	For the Three Months Ended		For the Six Months Ended	
	Gain (Loss)	February 28,	February 29,	February 28,	February 29,
		2013	2012	2013	2012
Commodity and freight derivatives	Cost of goods sold	\$(102,006)	\$(188,280)	\$(430,290)	\$(274,901)
Foreign exchange derivatives	Cost of goods sold	17,903	1,060	16,218	(4,384)
Interest rate derivatives	Interest, net	64		126	
		\$(84,039)	\$(187,220)	\$(413,946)	\$(279,285)

Goodwill and Other Intangible Assets

Goodwill was \$88.1 million, \$81.7 million and \$78.2 million on February 28, 2013, August 31, 2012 and February 29, 2012, respectively, and is included in other assets in our Consolidated Balance Sheets.

Intangible assets subject to amortization primarily include customer lists, trademarks and agreements not to compete, and are amortized over their respective useful lives (ranging from 2 to 30 years). Excluding goodwill, the gross carrying amount of our intangible assets was \$81.8 million, \$100.6 million and \$95.6 million on February 28, 2013, August 31, 2012 and February 29, 2012, respectively. Accumulated amortization was \$40.5 million, \$55.7 million and \$47.8 million as of February 28, 2013, August 31, 2012 and February 29, 2012, respectively. Intangible assets acquired were \$1.4 million during the six months ended February 28, 2013. Intangible assets of \$20.3 million were acquired during the six months ended February 29, 2012, related to the acquisition of Solbar Industries Ltd. (Solbar). Total amortization expense for intangible assets during the six months ended February 28, 2013 and February 29, 2012, was \$5.0 million and \$5.4 million, respectively. The estimated annual amortization expense related to intangible assets subject to amortization for the next five years is as follows:

Year 1	\$10,286
Year 2	6,658
Year 3	6,026
Year 4	5,517
Year 5	3,799
Thereafter	8,971
	\$41,257

In our Energy segment, major maintenance activities (turnarounds) at our two refineries are accounted for under the deferral method. Turnarounds are the scheduled and required shutdowns of refinery processing units. The costs related to the significant overhaul and refurbishment activities include materials and direct labor costs. The costs of turnarounds are deferred when incurred and amortized on a straight-line basis over the period of time estimated to lapse until the next turnaround occurs, which is generally 2 to 4 years. The amortization expense related to turnaround costs are included in cost of goods sold in our Consolidated Statements of Operations. The selection of the deferral method, as opposed to expensing the turnaround costs when incurred, results in deferring recognition of the turnaround expenditures. The deferral method also results in the classification of the related cash outflows as investing activities in our Consolidated Statements of Cash Flows, whereas expensing these costs as incurred, would result in classifying the cash outflows as operating activities.

For the six months ended February 28, 2013 and February 29, 2012, major repairs turnaround expenditures were \$9.2 million and \$19.8 million, respectively. During the first quarter of fiscal 2012 our Laurel, Montana refinery completed

a turnaround.

Recent Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-11, "Disclosures about Offsetting Assets and Liabilities." ASU No. 2011-11 creates new disclosure requirements about the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The disclosure requirements in this update are effective for

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annual reporting periods, and interim periods within those years, beginning on or after January 1, 2013. We are currently evaluating the impact that the adoption will have on our consolidated financial statements in fiscal 2014.

In February 2013, the FASB issued ASU No. 2013-02, "Comprehensive Income." ASU No. 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either in the consolidated statements of operations or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required that provide additional detail about those amounts. These amendments are only disclosure related and will not have an impact on our financial position, results of operations, comprehensive income or cash flows. ASU No. 2013-02 will become effective for us in fiscal 2014.

In February 2013, the FASB issued ASU No. 2013-04, "Liabilities." ASU No. 2013-04 requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in this ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We are currently evaluating the impact that the adoption will have on our consolidated financial statements in fiscal 2015.

In March 2013, the FASB issued ASU No. 2013-05, "Foreign Currency Matters." The amendments in this ASU clarify the applicable guidance for the release of the cumulative translation adjustment under current accounting standards. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We are currently evaluating the impact that the adoption will have on our consolidated financial statements in fiscal 2015.

Note 2 Receivables

	February 28, 2013	August 31, 2012	February 29, 2012
Trade accounts receivable	\$2,504,716	\$2,817,817	\$1,932,540
CHS Capital notes receivable	530,267	606,514	545,326
Other	346,695	278,196	302,510
	3,381,678	3,702,527	2,780,376
Less allowances and reserves	116,919	111,785	110,758
	\$3,264,759	\$3,590,742	\$2,669,618

Trade accounts receivable are initially recorded at a selling price, which approximates fair value, upon the sale of goods or services to customers. The carrying value of CHS Capital notes receivable approximates fair value, given their short duration and the use of market pricing adjusted for risk.

CHS Capital, our wholly-owned subsidiary, has notes receivable from commercial borrowers and producer borrowings. The short-term notes receivable generally have terms of 12-14 months and are reported at their outstanding principle balances as CHS Capital has the ability and intent to hold these notes to maturity. The notes receivable from commercial borrowers are collateralized by various combinations of mortgages, personal property, accounts and notes receivable, inventories and assignments of certain regional cooperative's capital stock. These loans

are primarily originated in the states of Minnesota, Wisconsin and North Dakota. CHS Capital also has loans receivable from producer borrowers which are collateralized by various combinations of growing crops, livestock, inventories, accounts receivable, personal property and supplemental mortgages. In addition to the short-term amounts included in the table above, CHS Capital had long-term notes receivable with durations of not more than 10 years of \$120.2 million, \$164.8 million and \$109.8 million at February 28, 2013, August 31, 2012 and February 29, 2012, respectively, which are included in other assets on our Consolidated Balance Sheets. As of February 28, 2013, August 31, 2012 and February 29, 2012 the commercial notes represented 79%, 74% and 84%, respectively, and the producer notes represented 21%, 26% and 16%, respectively, of the total CHS Capital notes receivable.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

CHS Capital evaluates the collectability of both commercial and producer notes on a specific identification basis, based on the amount and quality of the collateral obtained, and records specific loan loss reserves when appropriate. A general reserve is also maintained based on historical loss experience and various qualitative factors. In total, our specific and general loan loss reserves related to CHS Capital are not material to our consolidated financial statements, nor are the historical write-offs. The accrual of interest income is discontinued at the time the loan is 90 days past due unless the credit is well-collateralized and in process of collection. The amount of CHS Capital notes that were past due was not significant at any reporting date presented.

CHS Capital has commitments to extend credit to a customer as long as there is no violation of any condition established in the contract. As of February 28, 2013, CHS Capital's customers have additional available credit of \$948.5 million.

Note 3 Inventories

	February 28, 2013	August 31, 2012	February 29, 2012
Grain and oilseed	\$1,607,972	\$1,625,865	\$1,339,347
Energy	705,160	701,348	838,802
Crop nutrients	471,487	401,655	423,571
Feed and farm supplies	725,974	384,178	625,979
Processed grain and oilseed	94,667	76,892	67,629
Other	21,413	14,034	10,899
	\$3,626,673	\$3,203,972	\$3,306,227

As of February 28, 2013, we valued approximately 14% of inventories, primarily related to Energy, using the lower of cost, determined on the LIFO method, or market (11% and 16% as of August 31, 2012 and February 29, 2012, respectively). If the FIFO method of accounting had been used, inventories would have been higher than the reported amount by \$535.1 million, \$566.6 million and \$636.8 million at February 28, 2013, August 31, 2012 and February 29, 2012, respectively.

Note 4 Investments

As of August 31, 2012, we owned 74.5% of NCRA. During fiscal 2012, we entered into an agreement to purchase the remaining shares of NCRA from Growmark Inc. (Growmark) and MFA Oil Company (MFA) in separate closings to be held annually through fiscal 2015. Pursuant to this agreement, we made the first payments during the first quarter of fiscal 2013 to Growmark and MFA in the amounts of \$48.0 million and \$18.0 million respectively; increasing our ownership to 79.2%. The present value of the remaining payments is included as mandatorily redeemable noncontrolling interest on our Consolidated Balances Sheets.

We have a 24% ownership in Horizon Milling, LLC and Horizon Milling G.P., flour milling joint ventures with Cargill Inc. (Cargill), which are included in Corporate and Other. On March 4, 2013, we entered into a definitive agreement with Cargill and ConAgra Foods, Inc. to form Ardent Mills, a joint venture combining the North American flour milling operations of the three parent companies, with CHS holding a 12% interest. The transaction is expected to close in our fiscal 2014.

We have a 50% interest in Ventura Foods, LLC (Ventura Foods), a joint venture which produces and distributes primarily vegetable oil-based products, and is included in Corporate and Other. We account for Ventura Foods as an equity method investment, and as of February 28, 2013, our carrying value of Ventura Foods exceeded our share of

their equity by \$12.9 million, which represents equity method goodwill. The following provides summarized unaudited financial information for Ventura Foods balance sheets as of February 28, 2013, August 31, 2012 and February 29, 2012, and statements of operations for the three and six months ended February 28, 2013 and February 29, 2012:

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	February 28, 2013	August 31, 2012	February 29, 2012
Current assets	\$555,455	\$574,925	\$572,810
Non-current assets	480,360	459,070	458,569
Current liabilities	237,901	197,251	207,345
Non-current liabilities	231,982	277,760	285,583

	For the Three Months Ended		For the Six Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Net sales	\$588,359	\$599,330	\$1,239,846	\$1,264,913
Gross profit	60,348	59,700	122,471	115,751
Net earnings	21,469	22,210	42,197	37,312
Earnings attributable to CHS Inc.	10,735	11,105	21,099	18,656

Note 5 Notes Payable and Long-Term Debt

	February 28, 2013	August 31, 2012	February 29, 2012
Notes payable	\$419,536	\$269,783	\$182,661
CHS Capital notes payable	438,960	533,839	453,410
	\$858,496	\$803,622	\$636,071

On February 28, 2013, we had two primary committed lines of credit. We had a three-year revolving facility and a five-year revolving facility, each with committed amounts of \$1.25 billion, for a total of \$2.5 billion. We had no amounts outstanding as of February 28, 2013, August 31, 2012 and February 29, 2012.

In March 2013, we issued \$100 million of long-term notes with an interest rate of 4.71%, which matures in fiscal 2033. The carrying value of our long-term debt approximated its fair value, based on quoted market prices of similar debt (a Level 2 classification in the fair value hierarchy).

Interest, net for the three and six months ended February 28, 2013 and February 29, 2012 is as follows:

	For the Three Months Ended		For the Six Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Interest expense	\$23,219	\$22,187	\$47,655	\$45,494
Interest-purchase of NCRA noncontrolling interests	33,991	15,856	80,687	15,856
Capitalized interest	(2,694)	(1,903)	(5,596)	(3,709)
Interest income	(1,131)	(1,509)	(2,151)	(2,203)
Interest, net	\$53,385	\$34,631	\$120,595	\$55,438

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Note 6 Equities

Changes in equities for the six months ended February 28, 2013 and February 29, 2012 are as follows:

	For the Six Months Ended	
	February 28, 2013	February 29, 2012
CHS Inc. balances, September 1, 2012 and 2011	\$4,455,341	\$3,915,592
Net income attributable to CHS Inc.	618,793	494,678
Other comprehensive income (loss)	2,254	(2,623)
Patronage distribution	(975,732)	(674,702)
Patronage accrued	969,862	674,678
Equities retired	(179,369)	(130,566)
Equity retirements accrued	179,369	130,566
Equities issued in business combinations	18,236	19,550
Preferred stock dividends	(12,272)	(12,272)
Preferred stock dividends accrued	4,091	4,091
Accrued dividends and equities payable	(249,591)	(198,291)
Purchase of noncontrolling interests		(96,720)
Other, net	2,931	(542)
CHS Inc. balances, February 28, 2013 and February 29, 2012	\$4,833,913	\$4,123,439
Noncontrolling interests balances, September 1, 2012 and 2011	\$17,982	\$349,728
Net income attributable to noncontrolling interests	2,606	73,439
Distributions to noncontrolling interests	(740)	(77,519)
Distributions accrued		5,544
Purchase of noncontrolling interests		(337,145)
Other	1,087	(197)
Noncontrolling interests balances, February 28, 2013 and February 29, 2012	\$20,935	\$13,850

The following table presents the effects of changes in our NCRA ownership interest on CHS Inc. equities for the six months ended February 28, 2013 and February 29, 2012:

	For the Six Months Ended	
	February 28, 2013	February 29, 2012
Net income attributable to CHS Inc.	\$618,793	\$494,678
Transfers to noncontrolling interests:		
Decrease in CHS Inc. capital reserves for purchase of noncontrolling interests		(82,138)
Changes from net income attributable to CHS Inc. and transfers to noncontrolling interests	\$618,793	\$412,540

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Note 7 Benefit Plans

Employee benefits information for the three and six months ended February 28, 2013 and February 29, 2012 is as follows:

	Qualified Pension Benefits		Non-Qualified Pension Benefits		Other Benefits	
	2013	2012	2013	2012	2013	2012
Components of net periodic benefit costs for the three months ended February 28, 2013 and February 29, 2012 is as follows:						
Service cost	\$7,216	\$6,501	\$164	\$(31)	\$634	\$511
Interest cost	6,501	5,909	324	348	616	637
Expected return on assets	(11,967)	(9,985)				
Prior service cost (credit) amortization	400	458	57	57	(5)	(26)
Actuarial loss amortization	5,230	3,744	211	113	223	206
Transition amount amortization					174	234
Net periodic benefit cost	\$7,380	\$6,627	\$756	\$487	\$1,642	\$1,562
Components of net periodic benefit costs for the six months ended February 28, 2013 and February 29, 2012 is as follows:						
Service cost	\$14,432	\$13,003	\$329	\$141	\$1,267	\$1,021
Interest cost	13,006	11,844	647	696	1,232	1,273
Expected return on assets	(23,923)	(20,009)				
Prior service cost (credit) amortization	799	916	114	114	(9)	(52)
Actuarial loss amortization	10,461	7,476	422	225	446	413
Transition amount amortization					349	468
Net periodic benefit cost	\$14,775	\$13,230	\$1,512	\$1,176	\$3,285	\$3,123

Employer Contributions:

Total contributions to be made during fiscal 2013, including the NCRA plan, will depend primarily on market returns on the pension plan assets and minimum funding level requirements. During the six months ended February 28, 2013, CHS and NCRA made no contributions to the pension plans. At this time, we do not anticipate having to make contributions to our benefit plans in fiscal 2013, however, we may voluntarily elect to do so.

Note 8 Segment Reporting

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

Our Energy segment produces and provides primarily for the wholesale distribution of petroleum products and transportation of those products. Our Ag segment purchases and further processes or resells grains and oilseeds originated by our country operations business, by our member cooperatives and by third parties, and also serves as a wholesaler and retailer of crop inputs. Corporate and Other primarily represents the non-consolidated wheat milling

and packaged food joint ventures, as well as our business solutions operations, which consist of commodities hedging, insurance and financial services related to crop production.

Corporate administrative expenses are allocated to each business segment, and Corporate and Other, based on 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. Historically, our income is generally lowest during the second fiscal quarter and highest during the third fiscal quarter. For example, in our Ag segment, agronomy and country operations businesses experience higher volumes and income during the spring planting season and in the fall, which corresponds to harvest. Also in our Ag segment, our grain marketing operations are subject to

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fluctuations in volumes and earnings based on producer harvests, world grain prices and demand. Our Energy segment generally experiences higher volumes and profitability in certain operating areas, such as refined products, in the summer and early fall when gasoline and diesel fuel usage is highest and is subject to global supply and demand forces. Other energy products, such as propane, may experience higher volumes and profitability during the winter heating and crop drying seasons.

Our revenues, assets and cash flows can be significantly affected by global market prices for commodities such as petroleum products, natural gas, grains, oilseeds, crop nutrients and flour. Changes in market prices for commodities that we purchase without a corresponding change in the selling prices of those products can 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. In our Ag segment, this principally includes our 50% ownership in TEMCO, LLC (TEMCO). In Corporate and Other, these investments principally include our 50% ownership in Ventura Foods and our 24% ownership in Horizon Milling, LLC and Horizon Milling G.P.

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

Segment information for the three and six months ended February 28, 2013 and February 29, 2012 is as follows:

	Energy	Ag	Corporate and Other	Reconciling Amounts	Total
For the Three Months Ended February 28, 2013:					
Revenues	\$2,815,736	\$7,150,228	\$19,371	\$(102,957)	\$9,882,378
Cost of goods sold	2,505,801	7,009,448	(561)	(102,957)	9,411,731
Gross profit	309,935	140,780	19,932	—	470,647
Marketing, general and administrative	41,183	74,401	19,096	—	134,680
Operating earnings	268,752	66,379	836	—	335,967
Gain on investments		(45)			(45)
Interest, net	32,388	17,826	3,171		53,385
Equity loss (income) from investments	2,155	(1,792)	(17,123)		(16,760)
Income before income taxes	\$234,209	\$50,390	\$14,788	\$—	\$299,387
Intersegment revenues	\$(102,957)			\$102,957	\$—
For the Three Months Ended February 29, 2012:					
Revenues	\$2,918,852	\$6,008,402	\$15,656	\$(99,098)	\$8,843,812
Cost of goods sold	2,821,733	5,890,328	(728)	(99,098)	8,612,235
Gross profit	97,119	118,074	16,384	—	231,577
Marketing, general and administrative	38,268	71,688	16,600	—	126,556
Operating earnings	58,851	46,386	(216)	—	105,021
Loss on investments		484			484

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Interest, net	18,803	12,837	2,991		34,631
Equity income from investments	(2,053)	(3,088)	(14,811)		(19,952)
Income before income taxes	\$42,101	\$36,153	\$11,604	\$—	\$89,858
Intersegment revenues	\$(99,098)			\$99,098	\$—
For the Six Months Ended February 28, 2013:					
Revenues	\$6,139,964	\$15,651,969	\$36,946	\$(236,563)	\$21,592,316
Cost of goods sold	5,496,643	15,317,563	(1,492)	(236,563)	20,576,151
Gross profit	643,321	334,406	38,438	—	1,016,165
Marketing, general and administrative	77,654	145,388	36,120		259,162

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Operating earnings	565,667	189,018	2,318	—	757,003	
Loss on investments		(45)		(45	
Interest, net	78,171	36,038	6,386		120,595	
Equity loss (income) from investments	271	(9,739	)	(35,364)	
Income before income taxes	\$487,225	\$162,764	\$31,296	\$—	\$681,285	
Intersegment revenues	\$(236,563	)		\$236,563	\$—
Goodwill	\$1,165	\$80,084	\$6,898		\$88,147	
Capital expenditures	\$173,669	\$87,466	\$3,197		\$264,332	
Depreciation and amortization	\$57,256	\$51,072	\$8,584		\$116,912	
Total identifiable assets at February 28, 2013	\$3,648,852	\$7,493,776	\$1,810,573		\$12,953,201	
For the Six Months Ended February 29, 2012:						
Revenues	\$6,315,826	\$12,458,223	\$33,150	\$(229,228)	\$18,577,971
Cost of goods sold	5,786,901	12,150,199	(1,485)	(229,228)
Gross profit	528,925	308,024	34,635	—	871,584	
Marketing, general and administrative	71,171	133,531	34,374		239,076	
Operating earnings	457,754	174,493	261	—	632,508	
Loss on investments		446			446	
Interest, net	22,305	26,751	6,382		55,438	
Equity income from investments	(3,943)	(10,250)	(29,888)
Income before income taxes	\$439,392	\$157,546	\$23,767	\$—	\$620,705	
Intersegment revenues	\$(229,228	)		\$229,228	\$—
Goodwill	\$1,165	\$70,138	\$6,898		\$78,201	
Capital expenditures	\$126,200	\$68,716	\$2,971		\$197,887	
Depreciation and amortization	\$53,031	\$42,242	\$9,459		\$104,732	
Total identifiable assets at February 29, 2012	\$3,803,977	\$5,694,095	\$1,868,923		\$11,366,995	

Note 9 Fair Value Measurements

The following table presents assets and liabilities, included in our Consolidated Balance Sheets, that are recognized at fair value on a recurring basis, and indicates the fair value hierarchy utilized to determine such fair value. Assets and liabilities are classified, in their entirety, based on the lowest level of input that is a significant component of the fair value measurement. The lowest level of input is considered Level 3. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the classification of fair value assets and liabilities within the fair value hierarchy levels.

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Fair value measurements at February 28, 2013, August 31, 2012 and February 29, 2012 are as follows:

	February 28, 2013			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Readily marketable inventories		\$1,697,214		\$1,697,214
Commodity and freight derivatives	\$29,346	243,171		272,517
Interest rate swaps		459		459
Foreign currency derivatives	15,497			15,497
Other assets	79,333			79,333
Total Assets	\$124,176	\$1,940,844		\$2,065,020
Liabilities:				
Commodity and freight derivatives	\$15,661	\$200,222		\$215,883
Interest rate swap derivatives		418		418
Foreign currency derivatives	969			969
Accrued liability for contingent crack spread payments related to purchase of noncontrolling interests			\$140,987	140,987
Total Liabilities	\$16,630	\$200,640	\$140,987	\$358,257
	August 31, 2012			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Readily marketable inventories		\$1,702,757		\$1,702,757
Commodity and freight derivatives	\$70,586	778,362		848,948
Foreign currency derivatives	957			957
Other assets	75,000			75,000
Total Assets	\$146,543	\$2,481,119		\$2,627,662
Liabilities:				
Commodity and freight derivatives	\$150,049	\$356,046		\$506,095
Interest rate swap derivatives		544		544
Foreign currency derivatives	2,366			2,366
Accrued liability for contingent crack spread payments related to purchase of noncontrolling interests			\$127,516	127,516
Total Liabilities	\$152,415	\$356,590	\$127,516	\$636,521

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	February 29, 2012			
	Quoted Prices			
	in	Significant	Significant	Total
	Active	Other	Unobservable	
	Markets	Observable	Inputs	
	for Identical	Inputs	(Level 3)	
	Assets	(Level 2)		
	(Level 1)			
Assets:				
Readily marketable inventories		\$1,406,976		\$1,406,976
Commodity and freight derivatives	\$17,043	191,226		208,269
Other assets	74,537			74,537
Total Assets	\$91,580	\$1,598,202		\$1,689,782
Liabilities:				
Commodity and freight derivatives	\$51,975	\$243,609		\$295,584
Interest rate swap derivatives		586		586
Foreign currency derivatives	72			72
Accrued liability for contingent crack spread payments related to purchase of noncontrolling interests			\$101,003	101,003
Total Liabilities	\$52,047	\$244,195	\$101,003	\$397,245

Readily marketable inventories — Our readily marketable inventories primarily include grain, oilseed, and minimally processed soy-based inventories that are stated at fair values. These commodities are readily marketable, have quoted market prices and may be sold without significant additional processing. We estimate the fair market values of these inventories included in Level 2 primarily based on exchange quoted prices, adjusted for differences in local markets. Changes in the fair market values of these inventories are recognized in our Consolidated Statements of Operations as a component of cost of goods sold.

Commodity, freight and foreign currency derivatives — Exchange traded futures and options contracts are valued based on unadjusted quoted prices in active markets and are classified within Level 1. Our forward commodity purchase and sales contracts, flat price or basis fixed derivative contracts, ocean freight contracts and other OTC derivatives are determined using inputs that are generally based on exchange traded prices and/or recent market bids and offers, adjusted for location specific inputs, and are classified within Level 2. The location specific inputs are generally broker or dealer quotations, or market transactions in either the listed or OTC markets. Changes in the fair values of these contracts are recognized in our Consolidated Statements of Operations as a component of cost of goods sold.

Other assets — Our available-for-sale investments in common stock of other companies and Rabbi Trust assets are valued based on unadjusted quoted prices on active exchanges and are classified within Level 1. Changes in the fair values of these other assets are primarily recognized in our Consolidated Statements of Operations as a component of marketing, general and administrative expenses.

Interest rate swap derivatives — Fair values of our interest rate swap liabilities are determined utilizing valuation models that are widely accepted in the market to value such OTC derivative contracts. The specific terms of the contracts, as well as market observable inputs, such as interest rates and credit risk assumptions, are factored into the models. As all significant inputs are market observable, all interest rate swaps are classified within Level 2. Changes in the fair values of contracts not designated as hedging instruments for accounting purposes are recognized in our Consolidated Statements of Operations as a component of interest, net. Changes in the fair values of contracts designated as hedging instruments are deferred to accumulated other comprehensive loss in the equity section of our Consolidated Balance Sheets and are amortized into earnings within interest, net over the term of the agreements.

Accrued liability for contingent crack spread payment related to purchase of noncontrolling interests — The fair value of the accrued liability was calculated utilizing an average price option model, an adjusted Black-Scholes pricing model commonly used in the energy industry to value options. The model uses market observable inputs and unobservable inputs. Due to significant unobservable inputs used in the pricing model, the liability is classified within Level 3.

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Quantitative Information about Level 3 Fair Value Measurements

Item	Fair Value February 28, 2013	Valuation Technique	Unobservable Input	Range (Weighted Average)
Accrued liability for contingent crack spread payments related to purchase of noncontrolling interests	\$140,987	Adjusted Black Scholes option pricing model	Adjusted forward crack spread margin on February 28 (a)	\$24.74-\$39.23 (30.24)
			Contractual target crack spread margin (b)	\$17.50
			Expected volatility (c)	71.36%
			Own credit risk (d)	1.80-2.80% (2.42%)
			Expected life (years) (e)	0.50-4.51 (2.90)

(a) Represents adjusted forward crack spread margin quotes and management estimates based on future settlement dates

(b) Represents the minimum contractual threshold that would require settlement with the counterparties

(c) Represents quarterly adjusted volatility estimates derived from daily historical market data

(d) Represents the range of company-specific risk adjustments commensurate with typical long-term borrowing rates available to us at measurement date

(e) Represents the range in the number of years remaining related to each contingent payment

Valuation processes for Level 3 measurements — Management is responsible for determining the fair value of our Level 3 financial instruments. Option pricing methods are utilized, as indicated above. Inputs used in the option pricing models are based on quotes obtained from third party vendors as well as management estimates for periods in which quotes cannot be obtained. Each reporting period, management reviews the unobservable inputs provided by third-party vendors for reasonableness utilizing relevant information available to us. Management also takes into consideration current and expected market trends and compares the liability's fair value to hypothetical payments using known historical market data to assess reasonableness of the resulting fair value.

Sensitivity analysis of Level 3 measurements — The significant unobservable inputs that are susceptible to periodic fluctuations used in the fair value measurement of the accrued liability for contingent crack spread payments related to the purchase of noncontrolling interests are the adjusted forward crack spread margin and the expected volatility.

Significant increases (decreases) in either of these inputs in isolation would result in a significantly higher (lower) fair value measurement. Although changes in the expected volatility are driven by fluctuations in the underlying crack spread margin, changes in expected volatility are not necessarily accompanied by a directionally similar change in the forward crack spread margin. Directional changes in the expected volatility can be affected by a multitude of factors including the magnitude of daily fluctuations in the underlying market data, market trends, timing of fluctuations, and other factors.

The following table represents a reconciliation of liabilities measured at fair value using significant unobservable inputs (Level 3) for the three months ended February 28, 2013 and February 29, 2012, respectively:

Level 3 Liabilities
Accrued liability for
contingent crack spread
payments related to

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	purchase of noncontrolling interests	
	2013	2012
Balances, December 1, 2012 and 2011, respectively	\$170,621	\$105,188
Total (gains) losses included in cost of goods sold	(29,634)	(4,185)
Balances, February 28, 2013 and February 29, 2012, respectively	\$140,987	\$101,003

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The following table represents a reconciliation of liabilities measured at fair value using significant unobservable inputs (Level 3) for the six months ended February 28, 2013 and February 29, 2012, respectively:

	Level 3 Liabilities	
	2013	2012
Balances, September 1, 2012 and 2011, respectively	\$127,516	\$—
Purchases		105,188
Total (gains) losses included in cost of goods sold	13,471	(4,185)
Balances, February 28, 2013 and February 29, 2012, respectively	\$140,987	\$101,003

There were no significant transfers between Level 1, Level 2, and Level 3 assets and liabilities.

Note 10 Commitments and Contingencies

Unconditional Purchase Obligations

Long-term unconditional purchase obligations primarily relate to pipeline, fertilizer and grain handling take-or-pay and through-put agreements, and are not recorded on our Consolidated Balance Sheets. Minimum future payments required under long-term unconditional purchase obligations as of February 28, 2013 are as follows:

	Payments Due by Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
	(Dollars in thousands)				
Long-term unconditional purchase obligations	\$600,716	\$63,778	\$137,051	\$122,140	\$277,747

The discounted, aggregate amount of the minimum required payments under long-term unconditional purchase obligations, based on current exchange rates at February 28, 2013 is \$505.0 million.

Guarantees

We are a guarantor for lines of credit and performance obligations of related companies. As of February 28, 2013, our bank covenants allowed maximum guarantees of \$500.0 million, of which \$73.8 million was outstanding. We have collateral for a portion of these contingent obligations. We have not recorded a liability related to the contingent obligations as we do not expect to pay out any cash related to them, and the fair values are considered immaterial. The underlying loans to the counterparties for which we provide guarantees are current as of February 28, 2013.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 Quarterly Report on Form 10-Q, as well as our consolidated financial statements and notes thereto for the year ended August 31, 2012, 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 Quarterly Report on Form 10-Q.

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CHS Inc. (CHS, we or us) is a diversified company, which provides grain, foods and energy resources to businesses and consumers on a global basis. As a cooperative, we are owned by farmers, ranchers and their member cooperatives across the United States. 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 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.

Our 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) in our Energy segment. The effects of all significant intercompany transactions have been eliminated.

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

Our Energy segment produces and provides primarily for the wholesale distribution of petroleum products and transportation of those products. Our Ag segment purchases and further processes or 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. Corporate and Other primarily represents our non-consolidated wheat milling and packaged food joint ventures, as well as our business solutions operations, which consist of commodities hedging, insurance and financial services related to crop production.

Corporate administrative expenses are allocated to each business segment, and Corporate and Other, based on 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 vary throughout the year. Our income is generally lowest during the second fiscal quarter and highest during the third fiscal quarter. For example, in our Ag segment, our crop nutrients and country operations businesses generally experience higher volumes and income during the spring planting season and in the fall, which corresponds to harvest. Our grain marketing operations are also subject to fluctuations in volume and earnings based on producer harvests, world grain prices and demand. Our Energy segment generally experiences higher volumes and profitability in certain operating areas, such as refined products, in the summer and early fall when gasoline and diesel fuel usage is highest and is subject to global supply and demand forces. Other energy products, such as propane, may experience higher volumes and profitability during the winter heating and crop drying seasons.

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

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Recent Events

Horizon Milling, LLC and Horizon Milling G.P. are flour milling joint ventures with Cargill, of which we own 24%. On March 4, 2013, we entered into a definitive agreement with Cargill and ConAgra Foods, Inc. to form Ardent Mills, a joint

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venture combining the North American flour milling operations of the three parent companies, with CHS holding a 12% interest. The transaction is expected to close in our fiscal 2014.

We are currently taking steps toward construction of a more than \$1 billion nitrogen fertilizer manufacturing plant to be located at Spiritwood, North Dakota, which would provide the region's farmers with enhanced supplies of crop nutrients essential to raising corn and other crops. We plan to spend up to \$25 million on an engineering design study to determine feasibility of the project, to be completed in the fall of 2013.

Results of Operations

Comparison of the three months ended February 28, 2013 and February 29, 2012

General. We recorded income before income taxes of \$299.4 million during the three months ended February 28, 2013 compared to \$89.9 million during the three months ended February 29, 2012, an increase of \$209.5 million. Operating results reflected increased pretax earnings in both our Energy and Ag segments and in Corporate and Other.

Our Energy segment generated income before income taxes of \$234.2 million for the three months ended February 28, 2013 compared to \$42.1 million in the three months ended February 29, 2012, representing an increase of \$192.1 million. During the three months ended February 28, 2013, we had a net loss on the mark-to-market for our refinery margin hedges of \$15.4 million compared to a net loss of \$46.7 million during the same period of the previous year. Earnings in our transportation business improved, while our propane, renewable fuels marketing and lubricants businesses experienced decreased earnings during the three months ended February 28, 2013, when compared to the same three-month period of the previous year. We are subject to the renewable fuel standard (RFS) which requires refiners to blend renewable fuels (e.g., ethanol, biodiesel) into their finished transportation fuels or purchase renewable energy credits, called RINs, in lieu of blending. The EPA generally establishes new annual renewable fuel percentage standards for each compliance year in the preceding year. We generate RINs in our marketing operations under the RFS, however it is not enough to meet the needs of our refining capacity and RINs must be purchased on the open market. Recently the price of RINs has been extremely volatile with prices increasing. As a result, the purchase of RINs could have a negative impact on our future refined fuels margins, the impact of which we are not able to estimate at this time. For the three months ended February 28, 2013 and February 29, 2012, we recorded expense of \$17.2 million and \$5.8 million, respectively, related to RINs.

Our Ag segment generated income before income taxes of \$50.4 million for the three months ended February 28, 2013 compared to \$36.2 million in the three months ended February 29, 2012, an increase in earnings of \$14.2 million (39%). Earnings from our wholesale crop nutrients business increased \$15.3 million for the three months ended February 28, 2013 compared with the three months ended February 29, 2012, primarily due to increased margins. Our country operations earnings increased \$4.4 million during the three months ended February 28, 2013, compared to the same three-month period of the previous year, primarily as a result of increased margins on our retail merchandise sales. Our grain marketing earnings decreased by \$14.3 million during the three months ended February 28, 2013 compared with the three months ended February 29, 2012, primarily as a result of decreased volumes and margins. Our processing and food ingredients businesses experienced an increase in earnings of \$8.6 million for the three months ended February 28, 2013 compared to the same period of the previous year, primarily due to \$5.5 million in acquisition costs related to our acquisition of Solbar during the three months ended February 29, 2012, in addition to increased margins from our soybean crushing and refining businesses.

Corporate and Other generated income before income taxes of \$14.8 million during the three months ended February 28, 2013 compared to \$11.6 million during the three months ended February 29, 2012, an increase in earnings of \$3.2 million (27%). Business solutions earnings increased \$1.0 million during the three months ended

February 28, 2013 compared with the three months ended February 29, 2012, which reflected better results in our hedging and insurance activities, partially offset by decreased commercial loan volumes in our financial services business. Our share of earnings from Ventura Foods, our packaged foods joint venture, net of allocated expenses, remained relatively flat during the three months ended February 28, 2013, compared to the same period of the previous year. Our share of earnings from our wheat milling joint ventures, net of allocated expenses, increased \$2.3 million during the three months ended February 28, 2013 compared to the same period of the previous year, primarily due to improved margins.

Net Income attributable to CHS Inc. Consolidated net income attributable to CHS Inc. for the three months ended February 28, 2013 was \$275.1 million compared to \$78.5 million for the three months ended February 29, 2012, which represents a \$196.6 million increase.

Revenues. Consolidated revenues were \$9.9 billion for the three months ended February 28, 2013 compared to \$8.8 billion for the three months ended February 29, 2012, which represents a \$1.0 billion (12%) increase.

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Our Energy segment revenues, after elimination of intersegment revenues, of \$2.7 billion decreased by \$107.0 million (4%) during the three months ended February 28, 2013 compared to the three months ended February 29, 2012. During the three months ended February 28, 2013 and February 29, 2012, our Energy segment recorded revenues from sales to our Ag segment of \$103.0 million and \$99.1 million, respectively, which are eliminated as part of the consolidation process. The net decrease of \$107.0 million is comprised of a net decrease of \$95.8 million related to decreased prices and \$11.1 million related to decreased sales volumes. Refined fuels revenues increased \$30.5 million (2%), of which \$26.6 million was related to increased volumes, partially offset by \$3.9 million related to a net average selling price decrease, compared to the same period of the previous year. Sales volumes increased 1%, while the sales price of refined fuels was relatively flat, when compared with the same period of the previous year. Propane revenues decreased \$40.8 million (13%), which included \$104.7 million related to a decrease in the net average selling price, partially offset by \$63.9 million from a 20% increase in volumes, when compared to the same period of the previous year. The average selling price of propane decreased \$0.38 per gallon (27%), when compared to the same period of the previous year. Renewable fuels marketing revenues decreased \$97.0 million (22%), primarily from a 24% decrease in volumes, partially offset by an increase in the average selling price of \$0.08 per gallon (3%), when compared with the same period of the previous year.

Our Ag segment revenues, after elimination of intersegment revenues, of \$7.2 billion increased \$1.1 billion (19%) during the three months ended February 28, 2013 compared to the three months ended February 29, 2012.

Grain revenues in our Ag segment totaled \$5.6 billion and \$4.7 billion during the three months ended February 28, 2013 and 2012, respectively. The grain revenues increase of \$921.4 million (20%) is primarily due to \$1.1 billion in increased average grain selling prices, partially offset by a net decrease in volumes of \$203.3 million (4%), during the three months ended February 28, 2013 compared to the same period of the previous year. The average sales price of all grain and oilseed commodities sold reflected an increase of \$2.11 per bushel (25%) over the three months ended February 29, 2012. Wheat and corn had decreased volumes, while soybeans had increased volumes compared to the three months ended February 29, 2012.

Our processing and food ingredients revenues in our Ag segment of \$443.3 million increased \$110.2 million (33%) during the three months ended February 28, 2013 compared to the three months ended February 29, 2012. The net increase in revenues is comprised of \$74.8 million from an increase in the average selling price of our oilseed products, and \$35.5 million is related to increased volumes, including volumes from recent acquisitions, as compared to the three months ended February 29, 2012. Typically, changes in average selling prices of oilseed products are primarily driven by the average market prices of soybeans.

Wholesale crop nutrient revenues in our Ag segment totaled \$576.7 million and \$540.9 million during the three months ended February 28, 2013 and February 29, 2012, respectively. Of the wholesale crop nutrient revenues increase of \$35.8 million (7%), \$95.5 million was due to increased volumes, partially offset by \$59.7 million related to a decrease in the average fertilizer selling prices, during the three months ended February 28, 2013 compared to the same period of the previous year. The average sales price of all fertilizers sold decreased \$45.84 (9%) per ton compared to the same period of the previous year. Our wholesale crop nutrient volumes increased 18% during the three months ended February 28, 2013 compared with the three months ended February 29, 2012.

Our Ag segment other product revenues, primarily feed and farm supplies, of \$441.8 million increased by \$39.8 million (10%) during the three months ended February 28, 2013 compared to the three months ended February 29, 2012, primarily the result of increased revenues in our country operations sales of retail crop nutrients, feed and crop protection products, which includes additional volumes from acquisitions. Other revenues within our Ag segment of \$45.0 million increased \$4.5 million (11%) during the three months ended February 28, 2013 compared to the same

period of the previous year.

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

Cost of Goods Sold. Consolidated cost of goods sold was \$9.4 billion for the three months ended February 28, 2013 compared to \$8.6 billion for the three months ended February 29, 2012, which represents a \$799.5 million (9%) increase.

Our Energy segment cost of goods sold, after elimination of intersegment costs, of \$2.4 billion decreased by \$319.8 million (12%) during the three months ended February 28, 2013 compared to the three months ended February 29, 2012. The

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decrease in cost of goods sold is primarily due to decreases in the cost of goods sold for refined fuels, propane and renewable fuels marketing products. Specifically, refined fuels cost of goods sold decreased \$172.4 million (9%), which reflects a decrease in the average cost of refined fuels of \$0.26 per gallon (9%), partially offset by a 1% increase in volumes compared to the three months ended February 29, 2012. On average, we process approximately 55,000 barrels of crude oil per day at our Laurel, Montana refinery and 85,000 barrels of crude oil per day at NCRA's McPherson, Kansas refinery. The aggregate average per unit cost of crude oil purchased for the two refineries decreased 16% compared to the three months ended February 29, 2012, which is reflected in the \$0.26 per gallon decrease in average cost of refined fuels. The decrease in refined fuels cost of goods sold included a net loss on the mark-to-market of our refinery margin hedges of \$15.4 million compared to a net loss of \$46.7 million in the same period of the previous fiscal year, and a decrease in the contingent crack spread liability related to our purchase of the noncontrolling interests of NCRA of \$29.6 million. The cost of propane decreased \$41.0 million (13%), which was reflected by an average cost decrease of \$0.38 per gallon (27%), partially offset by a 20% increase in volumes, when compared to the three months ended February 29, 2012. Renewable fuels marketing costs decreased \$95.6 million (22%), primarily from a 24% decrease in sales volumes, partially offset by an increase in the average cost of \$0.08 per gallon (3%), when compared with the same period of the previous year.

Our Ag segment cost of goods sold, after elimination of intersegment costs, of \$7.0 billion increased \$1.1 billion (19%) during the three months ended February 28, 2013 compared to the three months ended February 29, 2012. Grain cost of goods sold in our Ag segment totaled \$5.6 billion and \$4.6 billion during the three months ended February 28, 2013 and February 29, 2012, respectively. The cost of grains and oilseed procured through our Ag segment increased \$946.4 million (20%) compared to the three months ended February 29, 2012. This is primarily the result of a \$2.15 (26%) increase in the average cost per bushel, partially offset by a 4% net decrease in bushels sold, as compared to the same period of the previous year. The average month-end market price per bushel of soybeans, corn and spring wheat increased compared to the same period of the previous year.

Our processing and food ingredients cost of goods sold in our Ag segment of \$453.6 million increased \$134.7 million (42%) during the three months ended February 28, 2013 compared to the three months ended February 29, 2012, which was primarily due to increases in the cost of soybeans purchased and increased volumes of oilseed refined products sold, which includes volumes from recent acquisitions.

Wholesale crop nutrients cost of goods sold in our Ag segment totaled \$556.5 million and \$539.5 million during the three months ended February 28, 2013 and February 29, 2012, respectively. The net increase of \$16.9 million (3%) is comprised of a net increase in tons sold of 18%, partially offset by a decrease in the average cost per ton of fertilizer of \$61 (13%), when compared to the same period of the previous year.

Our Ag segment other product cost of goods sold, primarily feed and farm supplies, increased \$23.8 million (8%) during the three months ended February 28, 2013 compared to the three months ended February 29, 2012, primarily due to net higher commodity prices, along with increased volumes, including additional volumes generated from acquisitions.

Marketing, General and Administrative. Marketing, general and administrative expenses of \$134.7 million for the three months ended February 28, 2013 increased by \$8.1 million (6%) compared to the three months ended February 29, 2012. This net increase is primarily due to the expansion of foreign operations and acquisitions in our Ag segment.

Interest, net. Net interest of \$53.4 million for the three months ended February 28, 2013 increased \$18.8 million compared to the three months ended February 29, 2012. Interest expense for the three months ended February 28, 2013 and February 29, 2012 was \$57.2 million and \$38.0 million, respectively. The increase in interest expense of

\$19.2 million is primarily due to an \$18.5 million increase in patronage earned by the noncontrolling interests of NCRA when compared with the same period of the previous year. The increase in interest expense was also partially due to increased short-term borrowings during the three months ended February 28, 2013 compared to the same period of the previous year. The increase in the average level of short-term borrowings primarily related to a \$49.3 million increase in CHS Capital activity. For the three months ended February 28, 2013 and February 29, 2012, we capitalized interest of \$2.7 million and \$1.9 million, respectively, primarily related to construction projects at both refineries in our Energy segment. Interest income was \$1.1 million and \$1.5 million for the three months ended February 28, 2013 and February 29, 2012, respectively.

Equity Income from Investments. Equity income from investments of \$16.8 million for the three months ended February 28, 2013 decreased \$3.2 million (16%) compared to the three months ended February 29, 2012. 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 decrease in equity income from investments was attributable to decreased earnings from investments in our Ag segment and Energy segment of \$1.3 million

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and \$4.2 million, respectively, while earnings from investments in Corporate and Other increased by \$2.3 million when compared to the same period of the previous year. Results from our wheat milling joint venture earnings, which increased by \$2.6 million, and Ventura Foods, our vegetable oil-based products and packaged foods joint venture, which decreased \$0.4 million compared to the three months ended February 29, 2012, are included in the \$3.2 million decrease in equity income from investments.

Income Taxes. Income tax expense of \$23.9 million for the three months ended February 28, 2013, compared with \$10.6 million for the three months ended February 29, 2012, resulting in effective tax rates of 8.0% and 11.8%, respectively. The federal and state statutory rate applied to nonpatronage business activity was 38.1% and 38.9% for the three months ended February 28, 2013 and February 29, 2012, respectively. The income taxes and effective tax rate vary each year based upon profitability and nonpatronage business activity during each of the comparable years.

Noncontrolling interests. Net income from noncontrolling interests of \$0.4 million for the three months ended February 28, 2013 decreased by \$0.3 million (44%) compared to the three months ended February 29, 2012.

Comparison of the six months ended February 28, 2013 and February 29, 2012

General. We recorded income before income taxes of \$681.3 million during the six months ended February 28, 2013 compared to \$620.7 million during the six months ended February 29, 2012, an increase of \$60.6 million (10%). Operating results reflected increased pretax earnings in both our Energy and Ag segments and in Corporate and other.

Our Energy segment generated income before income taxes of \$487.2 million for the six months ended February 28, 2013 compared to \$439.4 million in the six months ended February 29, 2012, representing an increase of \$47.8 million (11%). During the six months ended February 28, 2013, we had a net loss on the mark-to-market for our refinery margin hedges of \$57.8 million compared to a net gain of \$66.3 million during the same period of the previous year. Earnings in our propane, renewable fuels marketing and transportation businesses improved, while our lubricants business experienced lower earnings during the six months ended February 28, 2013 when compared to the same six-month period of the previous year. We are subject to the RFS which requires refiners to blend renewable fuels (e.g., ethanol, biodiesel) into their finished transportation fuels or purchase renewable energy credits, called RINs, in lieu of blending. The EPA generally establishes new annual renewable fuel percentage standards for each compliance year in the preceding year. We generate RINs in our marketing operations under the RFS, however it is not enough to meet the needs of our refining capacity and RINs must be purchased on the open market. Recently the price of RINs has been extremely volatile with prices increasing. As a result, the purchase of RINs could have a negative impact on our future refined fuels margins, the impact of which we are not able to estimate at this time. For the six months ended February 28, 2013 and February 29, 2012, we recorded expense of \$23.1 million and \$10.5 million, respectively, related to RINs.

Our Ag segment generated income before income taxes of \$162.8 million for the six months ended February 28, 2013 compared to \$157.5 million in the six months ended February 29, 2012, an increase in earnings of \$5.2 million (3%). Earnings from our wholesale crop nutrients business increased \$9.9 million for the six months ended February 28, 2013 compared with the same period in fiscal 2012, primarily due to improved product margins and increased volumes. Our country operations earnings increased \$8.7 million during the six months ended February 28, 2013 compared to the same period in the prior year. Overall, merchandise margins increased for retail operations while grain margins decreased. Our grain marketing earnings decreased by \$29.1 million during the six months ended February 28, 2013 compared with the same period in the prior year, primarily due to lower margins. Our processing and food ingredients businesses experienced an increase in earnings of \$14.2 million for the six months ended February 28, 2013 compared to the same period of the previous year, primarily due to \$5.5 million in acquisition costs related to our acquisition of Solbar during the six months ended February 29, 2012, in addition to increased margins

from our soybean crushing and refining businesses.

Corporate and Other generated income before income taxes of \$31.3 million for the six months ended February 28, 2013 compared to \$23.8 million during the same period of the previous year, an increase in earnings of \$7.5 million (32%). Business solutions experienced a net increase in earnings of \$2.3 million for the six months ended February 28, 2013 compared with the same period in the prior year, primarily due to increased earnings from our financing, insurance and hedging businesses. Our share of earnings from Ventura Foods, our packaged foods joint venture, net of allocated expenses, increased by \$3.0 million for the six months ended February 28, 2013, compared to the same period of the previous year, primarily from increased margins. Our share of earnings from our wheat milling joint ventures, net of allocated expenses, increased by \$2.6 million during the six months ended February 28, 2013 compared to the same period in the previous year.

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Net Income attributable to CHS Inc. Consolidated net income attributable to CHS Inc. for the six months ended February 28, 2013 was \$618.8 million compared to \$494.7 million for the six months ended February 29, 2012, which represents a \$124.1 million increase (25%).

Revenues. Consolidated revenues were \$21.6 billion for the six months ended February 28, 2013 compared to \$18.6 billion for the six months ended February 29, 2012, which represents a \$3.0 billion increase (16%).

Our Energy segment revenues of \$5.9 billion, after elimination of intersegment revenues, decreased by \$183.2 million (3%) during the six months ended February 28, 2013 compared to the six months ended February 29, 2012. During the six months ended February 28, 2013 and February 29, 2012, our Energy segment recorded revenues from sales to our Ag segment of \$236.6 million and \$229.2 million, respectively. The net decrease in revenues is comprised of a net decrease of \$136.2 million related to decreased prices and \$47.0 million related to decreased sales volumes. Refined fuels revenues increased \$43.2 million (1%), of which \$111.9 million related to a net average selling price increase, partially offset by \$68.7 million related to a net decrease in sales volumes, compared to the same period in the previous year. The sales price of refined fuels products increased \$0.08 per gallon (3%), and sales volumes decreased by 2%, when compared to the same six-month period of the previous year. Propane revenues decreased \$108.6 million (19%), of which \$184.3 million was related to a decrease in the net average selling price, partially offset by an increase of \$75.7 million attributable to volume, when compared to the same period in the previous year. Propane sales volume increased 13%, while the average selling price of propane decreased \$0.42 per gallon (28%) in comparison to the same period of the previous year. Renewable fuels marketing revenues decreased \$124.2 million (15%), from a decrease in the average selling price of \$0.09 per gallon (4%) and a 12% decrease in volume, when compared with the same six-month period in the previous year.

Our Ag segment revenues of \$15.7 billion increased \$3.2 billion (26%) during the six months ended February 28, 2013 compared to the six months ended February 29, 2012.

Grain revenues in our Ag segment totaled \$12.1 billion and \$9.4 billion during the six months ended February 28, 2013 and February 29, 2012, respectively. Of the grain revenues increase of \$2.7 billion (29%), \$2.4 billion is due to increased average grain selling prices and \$328.5 million is attributable to a net increase in volume of 3% during the six months ended February 28, 2013 compared to the same period in the prior fiscal year. The average sales price of all grain and oilseed commodities sold reflected an increase of \$2.12 per bushel (24%) over the same six-month period in the previous year. Corn had increased volumes, while soybeans and wheat had decreased volumes compared to the six months ended February 29, 2012.

Our processing and food ingredients revenues in our Ag segment of \$923.9 million increased \$240.0 million (35%) during the six months ended February 28, 2013 compared to the six months ended February 29, 2012. The net increase in revenues is comprised of \$149.6 million from an increase in the average selling price of our oilseed products and an increase of \$90.4 million related to increased volumes, including volumes from recent acquisitions, as compared to the six months ended February 29, 2012. Typically, changes in average selling prices of oilseed products are primarily driven by the average market prices of soybeans.

Wholesale crop nutrient revenues in our Ag segment totaled \$1.3 billion and \$1.2 billion during the six months ended February 28, 2013 and February 29, 2012, respectively. Of the wholesale crop nutrient revenues increase of \$129.6 million (11%), \$203.2 million was related to increased volumes, partially offset by \$73.6 million related to a decrease in average fertilizer selling prices, during the six months ended February 28, 2013 compared to the same period last fiscal year. Our wholesale crop nutrient volumes increased 17% during the six months ended February 28, 2013 compared with the same period in the previous year. The average sales price of all fertilizers sold reflected a decrease of \$26.87 per ton (5%) compared with the same period of the previous year.

Our Ag segment other product revenues, primarily feed and farm supplies, of \$1.2 billion increased by \$118.1 million (11%) during the six months ended February 28, 2013 compared to the six months ended February 29, 2012, primarily the result of increased revenues in our country operations sales of retail crop nutrients, and feed and crop protection products, which includes additional volumes from acquisitions. Other revenues within our Ag segment of \$104.1 million during the six months ended February 28, 2013 increased \$4.5 million (4%) compared to the six months ended February 29, 2012.

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

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Cost of Goods Sold. Consolidated cost of goods sold was \$20.6 billion for the six months ended February 28, 2013 compared to \$17.7 billion for the six months ended February 29, 2012, which represents a \$2.9 billion (16%) increase.

Our Energy segment cost of goods sold, after elimination of intersegment costs, of \$5.3 billion decreased by \$297.6 million (5%) during the six months ended February 28, 2013 compared to the same period of the prior year. The decrease in cost of goods sold is primarily due to decreases in the cost of goods sold for refined fuels, propane and renewable fuels marketing products. Specifically, refined fuels cost of goods sold decreased \$78.6 million (2%) which reflects a decrease in the average cost of refined fuels of \$0.02 per gallon (1%) and a 2% decrease in volumes when compared to the same period of the previous year. On average, we process approximately 55,000 barrels of crude oil per day at our Laurel, Montana refinery and 85,000 barrels of crude oil per day at NCRA's McPherson, Kansas refinery. The average cost decrease is primarily related to lower input costs at our two crude oil refineries and lower average prices on the refined products that we purchased for resale compared to the six months ended February 29, 2012. The aggregate average per unit cost of crude oil purchased for the two refineries decreased 5% compared to the six months ended February 29, 2012. The decrease in refined fuels cost of goods sold included a net loss on the mark-to-market of our refinery margin hedges of \$57.8 million compared to a net gain of \$66.3 million in the same period of the previous fiscal year, and an increase in the contingent crack spread liability related to our purchase of the noncontrolling interests of NCRA of \$13.5 million. The cost of goods sold of propane decreased \$110.1 million (20%) primarily from an average cost decrease of \$0.42 per gallon (29%), partially offset by a 13% increase in volumes, when compared to the same period of the previous year. Renewable fuels marketing costs decreased \$125.5 million (15%), primarily from a 12% decrease in volumes and a decrease in the average cost of \$0.10 per gallon (4%), when compared with the same six-month period in the previous year.

Our Ag segment cost of goods sold, after elimination of intersegment costs, of \$15.3 billion, increased \$3.2 billion (26%) during the six months ended February 28, 2013 compared to the same period of the prior year. Grain cost of goods sold in our Ag segment totaled \$11.9 billion and \$9.3 billion during the six months ended February 28, 2013 and February 29, 2012, respectively. The cost of grains and oilseed procured through our Ag segment increased \$2.6 billion (29%) compared to the six months ended February 29, 2012. This is primarily the result of a \$2.08 (24%) increase in the average cost per bushel and a 3% net increase in bushels sold, as compared to the same period in the prior year. The average month-end market price per bushel of soybeans, corn and spring wheat increased compared to the same period of the previous year.

Our processing and food ingredients cost of goods sold in our Ag segment of \$919.7 million increased \$256.7 million (39%) during the six months ended February 28, 2013 compared to the six months ended February 29, 2012, which was primarily due to increases in the cost of soybeans purchased and higher volumes of oilseed refined products sold, which includes volumes from recent acquisitions.

Wholesale crop nutrients cost of goods sold in our Ag segment totaled \$1.3 billion and \$1.2 billion during the six months ended February 28, 2013 and February 29, 2012, respectively. The net increase of \$111.9 million (10%) is comprised of a 17% increase in tons sold, partially offset by a decrease in the average cost per ton of fertilizer of \$31.33 (6%), when compared to the same six-month period in the prior year.

Our Ag segment other product cost of goods sold, primarily feed and farm supplies, increased \$88.9 million (10%) during the six months ended February 28, 2013 compared to the six months ended February 29, 2012, primarily due to net higher commodity prices, along with increased volumes, including additional volumes generated from acquisitions.

Marketing, General and Administrative. Marketing, general and administrative expenses of \$259.2 million for the six months ended February 28, 2013 increased by \$20.1 million (8%) compared to the six months ended February 29, 2012. This net increase is primarily due to the expansion of foreign operations and acquisitions in our Ag segment.

Interest, net. Net interest of \$120.6 million for the six months ended February 28, 2013 increased \$65.2 million compared to the same period of the previous year. Interest expense for the six months ended February 28, 2013 and February 29, 2012 was \$128.3 million and \$61.4 million, respectively. The increase in interest expense of \$67.0 million is primarily due to a \$63.6 million increase in patronage earned by the noncontrolling interests of NCRA when compared with the same period of the previous year. The increase in interest expense was also partially due to increased short-term borrowings during the six months ended February 28, 2013 compared to the same period of the previous year. The average level of short-term borrowings increased \$64.3 million during the six months ended February 28, 2013 compared to the same period of the previous year, of which \$54.4 million related to CHS Capital activity. For the six months ended February 28, 2013 and February 29, 2012, we capitalized interest of \$5.6 million and \$3.7 million, respectively, primarily related to construction projects at both refineries in our Energy segment. Interest income was \$2.2 million and \$2.2 million for the six months ended February 28, 2013 and February 29, 2012, respectively.

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Equity Income from Investments. Equity income from investments of \$44.8 million for the six months ended February 28, 2013 increased \$0.8 million (2%) compared to the six months ended February 29, 2012. We record equity income or loss from the investments in which we have an ownership interest of 50% or less and have significant influence, but not control, for our proportionate share of income or loss reported by the entity, without consolidating the revenues and expenses of the entity in our Consolidated Statements of Operations. The net increase in equity income from investments was attributable to increased earnings from investments in Corporate and Other of \$5.5 million, partially offset by decreased equity investment earnings in our Ag Segment and Energy segment of \$0.5 million and \$4.2 million, respectively. Results from our wheat milling joint venture, which increased by \$2.9 million and Ventura Foods, our vegetable oil-based products and packaged foods joint venture, which increased \$2.4 million, compared to the same six-month period in the previous year, are included in the \$0.8 million increase in equity income from investments.

Income Taxes. Income tax expense was \$59.9 million for the six months ended February 28, 2013 compared with \$52.6 million for the six months ended February 29, 2012, resulting in effective tax rates of 8.8% and 8.5%, respectively. The federal and state statutory rate applied to nonpatronage business activity was 38.1 and 38.9% for the six-month periods ended February 28, 2013 and February 29, 2012, respectively. The income taxes and effective tax rate vary each year based upon profitability and nonpatronage business activity during each of the comparable years.

Noncontrolling Interests. Income attributable to noncontrolling interests of \$2.6 million for the six months ended February 28, 2013 decreased by \$70.8 million (96%) compared to the six months ended February 29, 2012. Beginning in the second quarter of fiscal 2012, earnings from NCRA are no longer attributable to the noncontrolling interests, and patronage earned by the noncontrolling interests of NCRA after November 29, 2011 are included as interest, net in our Consolidated Statements of Operations.

Liquidity and Capital Resources

On February 28, 2013, we had working capital, defined as current assets less current liabilities, of \$2,969.1 million and a current ratio, defined as current assets divided by current liabilities, of 1.5 to 1.0 compared to working capital of \$2,848.5 million and a current ratio of 1.4 to 1.0 on August 31, 2012. On February 29, 2012, we had working capital of \$2,696.1 million and a current ratio of 1.5 to 1.0, compared to working capital of \$2,776.5 million and a current ratio of 1.5 to 1.0 on August 31, 2011.

On February 28, 2013, August 31, 2012 and February 29, 2012, we had two primary committed lines of credit. We had a three-year revolving facility and a five-year revolving facility, each with committed amounts of \$1.25 billion, for a total of \$2.5 billion, which had no amounts outstanding as of February 28, 2013, August 31, 2012 and February 29, 2012. The major financial covenants for both revolving facilities require us to maintain a minimum consolidated net worth, adjusted as defined in the credit agreements, of \$2.5 billion and a consolidated funded debt to consolidated cash flow ratio of no greater than 3.0 to 1.0. The term consolidated cash flow is principally our earnings before interest, taxes, depreciation and amortization (EBITDA) with adjustments as defined in the credit agreements. A third financial ratio does not allow our adjusted consolidated funded debt to adjusted consolidated equity to exceed 0.8 to 1.0 at any time. As of February 28, 2013, we were in compliance with all covenants. Our credit facilities are established with a syndication of domestic and international banks, and our inventories and receivables financed with them are highly liquid. With our current cash balances and our available capacity on our committed lines of credit, we believe that we have adequate liquidity to cover any increase in net operating assets and liabilities and expected maintenance capital expenditures.

In addition, our wholly-owned subsidiary, CHS Capital, makes seasonal and term loans to member cooperatives, businesses and individual producers of agricultural products included in our cash flows from investing activities, and has its own financing explained in further detail below under “Cash Flows from Financing Activities.”

Cash Flows from Operations

Cash flows from operations are generally affected by commodity prices and the seasonality of our businesses. These commodity prices are affected by a wide range of factors beyond our control, including weather, crop conditions, drought, the availability and the adequacy of supply and transportation, government regulations and policies, world events, and general political and economic conditions. These factors are described in the cautionary statements and may affect net operating assets and liabilities, and liquidity.

Our cash flows provided by operating activities were \$1,030.1 million and \$605.8 million for the six months ended February 28, 2013 and February 29, 2012, respectively. The fluctuation in cash flows when comparing the two periods is

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primarily from significant increases in cash inflows for net changes in operating assets and liabilities during the six months ended February 28, 2013 compared to a slight decrease during the six months ended February 29, 2012. Commodity prices decreased during the six months ended February 28, 2013 and February 29, 2012, and resulted in decreased working capital needs compared to August 31, 2012 and 2011, respectively.

Our operating activities provided net cash of \$1,030.1 million during the six months ended February 28, 2013. Net income including noncontrolling interests of \$621.4 million, net non-cash expenses and cash distributions from equity investments of \$132.8 million and a decrease in net operating assets and liabilities of \$275.9 million provided the net cash from operating activities. The primary components of net non-cash expenses and cash distributions from equity investments included depreciation and amortization, including amortization of major repair costs, of \$131.7 million and the loss on the crack spread contingent liability of \$13.5 million. The decrease in net operating assets and liabilities was caused primarily by a decrease in commodity prices resulting in a decrease in margin deposits as well as an increase in customer advance payments, relating to prepayments of spring agronomy products, partially offset by a decrease in customer margin deposits and an increase in inventory quantities on February 28, 2013, when compared to August 31, 2012. On February 28, 2013, the per bushel market prices of our primary grain commodities; corn, soybeans and spring wheat, decreased by \$0.83 (10%), \$2.90 (16%) and \$1.32 (14%), respectively when compared to the spot prices on August 31, 2012. In general, crude oil market prices decreased \$4 per barrel (4%) on February 28, 2013 when compared to August 31, 2012. On February 28, 2013, fertilizer commodity prices affecting our wholesale crop nutrients and country operations retail businesses remained flat or reflected decreases between 6% and 10%, depending on the specific products, compared to prices on August 31, 2012. An increase in feed and farm supplies inventories in our Ag segment partially offset the decreases in net operating assets and liabilities when comparing inventories at February 28, 2013 to August 31, 2012.

Our operating activities provided net cash of \$605.8 million during the six months ended February 29, 2012. Net income including noncontrolling interests of \$568.1 million and net non-cash expenses and cash distributions from equity investments of \$122.7 million were partially offset by an increase in net operating assets and liabilities of \$85.0 million. The primary components of adjustments to reconcile net income to net cash provided by operating activities included depreciation and amortization, and amortization of deferred major repair costs, of \$122.8 million, and redemptions from equity investments, net of income from those investments, of \$6.7 million. The slight decrease in net operating assets and liabilities was caused primarily by an increase in inventory quantities partially offset by a decrease in grain commodity prices in addition to a decrease in accounts payable and accrued expenses. This was partially offset by decreases in net margin deposits and net derivative assets which resulted from the decrease in commodity prices, on February 29, 2012, when compared to August 31, 2011. On February 29, 2012, the per bushel market prices of our three primary grain commodities decreased as follows: corn \$1.00 (13%), soybeans \$1.29 (9%) and spring wheat \$1.56 (16%) when compared to market prices on August 31, 2011. In general, crude oil market prices increased \$18 (21%) per barrel on February 29, 2012 compared to August 31, 2011. On February 29, 2012, fertilizer commodity prices affecting our wholesale crop nutrients and country operations retail businesses generally decreased between 6% and 22%, depending on the specific products, compared to prices on August 31, 2011, with the exception of Urea, which increased 2%. An increase in grain inventory quantities in our Ag Business segment of 51.6 million bushels (42%) contributed to the increase in net operating assets and liabilities when comparing inventories at February 29, 2012 to August 31, 2011.

Our cash usage is usually greatest during the second quarter of our fiscal year as we build inventories at our retail operations in our Ag Business segment and make payments on deferred payment contracts which have accumulated over the course of the prior calendar year. Our net income has historically been the lowest during our second fiscal quarter and highest during our third fiscal quarter, although we cannot ensure this historical trend will continue. We believe that we have adequate capacity through our committed credit facilities to meet any likely increase in net operating assets and liabilities.