

WELLS REAL ESTATE INVESTMENT TRUST II INC

Form S-11

July 15, 2003

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As filed with the Securities and Exchange Commission on July 15, 2003

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-11

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

Wells Real Estate Investment Trust II, Inc.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of

incorporation or organization)

6798
(Primary Standard Industrial

Classification Code Number)

20-0068852
(I.R.S. employer

identification number)

6200 The Corners Parkway, Suite 250

Norcross, Georgia 30092

(770) 449-7800

(Address, including zip code, and telephone number, including area code, of the registrant's principal executive offices)

Leo F. Wells, III

President

Wells Real Estate Investment Trust II, Inc.

6200 The Corners Parkway, Suite 250

Norcross, Georgia 30092

(770) 449-7800

(Name, address, including zip code and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to public: As soon as practicable after the effectiveness of the registration statement.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. " _____

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. " _____

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. " _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. "

CALCULATION OF REGISTRATION FEE

Title of Shares To Be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Share(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock, \$.01 par value per share	600,000,000 shares	\$ 10.00	\$ 6,000,000,000	\$ 485,400

(1) Estimated solely for purposes of determining the registration fee pursuant to Rule 457.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the SEC and various states is effective. This prospectus is not an offer to sell these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION

PRELIMINARY PROSPECTUS DATED JULY 15, 2003

WELLS REAL ESTATE INVESTMENT TRUST II, INC.

600,000,000 Shares of Common Stock

Wells Real Estate Investment Trust II, Inc. is a newly organized REIT that expects to use substantially all of the net proceeds from this offering to acquire and operate commercial real estate primarily consisting of high quality income-generating office and industrial properties leased to creditworthy companies and governmental entities. Because we have not yet identified any specific properties to purchase, we are considered to be a blind pool.

We are offering and selling to the public up to 600,000,000 shares of common stock for \$10 per share, including up to 60,000,000 shares to be issued pursuant to our dividend reinvestment plan at a purchase price of \$10 per share.

See Risk Factors beginning on page 16 to read about risks you should consider before buying shares of our common stock. These risks include the following:

No public market currently exists for our shares of common stock. If you are able to sell your shares, you would likely have to sell them at a substantial discount.

If we raise substantially less than the maximum offering, we may not be able to invest in a diverse portfolio of properties and the value of your investment may vary more widely with the performance of specific properties.

We will rely on Wells Capital, Inc., our advisor, to select properties and other investments and conduct our operations.

We have no operating history nor do we currently own any properties. We have not identified any properties to acquire with proceeds from this offering.

Our advisor and its affiliates will face conflicts of interest, including significant conflicts created by our advisor's compensation arrangements with us and similar programs sponsored by our advisor.

Our policies do not limit borrowings until they exceed 50% of our net assets, which debt levels could hinder our ability to pay dividends to our stockholders or could decrease the value of your investment.

Neither the SEC, the Attorney General of the State of New York nor any other state securities regulator has approved or disapproved of our common stock, determined if this prospectus is truthful or complete or passed on or endorsed the merits of this offering. Any representation to the contrary is a criminal offense.

The use of projections or forecasts in this offering is prohibited. No one is permitted to make any oral or written predictions about the cash benefits or tax consequences you will receive from your investment.

	Price to Public*	Selling Commissions*	Dealer Manager Fee*	Proceeds, Before Expenses, to Us
Per Share	\$ 10.00	\$ 0.70	\$ 0.25	\$ 9.05
Total Minimum	\$ 2,500,000.00	\$ 175,000.00	\$ 62,500.00	\$ 2,262,500.00
Total Maximum	\$ 6,000,000,000.00	\$ 420,000,000.00	\$ 150,000,000.00	\$ 5,430,000,000.00

* The selling commissions and, in some cases, the dealer manager fee will not be charged with regard to shares sold to or for the account of certain categories of purchasers. See Plan of Distribution.

We expect that at least 85% of the gross offering proceeds raised will be available to us for investment in real estate.

The dealer manager of this offering, Wells Investment Securities, Inc., is our affiliate and will offer the shares on a best-efforts basis. The minimum permitted purchase is generally \$1,000. We will not sell any shares unless we sell a minimum of 250,000 shares by , 2004 (one year from the date of this prospectus). Pending satisfaction of this condition, all subscription payments will be placed in an account held by the escrow agent, SouthTrust Bank, in trust for subscribers benefit, pending release to us. If we do not sell at least 250,000 shares by , 2004, we will return all funds in the escrow account (including interest), and we will stop selling shares.

WELLS INVESTMENT SECURITIES, INC.

, 2003

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QUESTIONS AND ANSWERS ABOUT THIS OFFERING

Below we have provided some of the more frequently asked questions and answers relating to an offering of this type. Please see the Prospectus Summary and the remainder of this prospectus for more detailed information about this offering.

Q: What is a REIT?

A: In general, a REIT is a company that:

combines the capital of many investors to acquire or provide financing for real estate properties;

allows individual investors to invest in a large-scale diversified real estate portfolio through the purchase of interests, typically shares, in the REIT;

is required to pay dividends to investors of at least 90% of its taxable income; and

avoids the double taxation treatment of income that would normally result from investments in a corporation because a REIT does not generally pay federal corporate income taxes on its net income, provided certain income tax requirements are satisfied.

Q: What is Wells Real Estate Investment Trust II, Inc.?

A: Wells Real Estate Investment Trust II, Inc. is a newly organized REIT that expects to use substantially all of the net proceeds from this offering to acquire and operate commercial real estate primarily consisting of high quality income-generating office and industrial properties leased to creditworthy companies and governmental entities. We may also invest in entities that make similar investments. We were incorporated in the State of Maryland in July 2003.

Q: What is your relationship to Wells Real Estate Investment Trust, Inc.?

A: Wells Real Estate Investment Trust, Inc., which we refer to as Wells REIT I, is a separate REIT from us. However, we have a common advisor, Wells Capital, Inc., and other affiliates in common, including some directors and officers.

Q: Who will choose your real estate investments?

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A: Wells Capital is our advisor and, as such, will manage our daily affairs and make recommendations on all property acquisitions to our board of directors. A committee comprised of all of our independent directors must approve all of our property acquisitions.

Q: Who is Wells Capital?

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A: Wells Capital, as our advisor, will provide investment advisory and management, marketing, sales and client services on our behalf. Wells Capital was incorporated in the State of Georgia in 1984. As of December 31, 2002, Wells Capital had sponsored or advised public real estate programs that had raised in excess of \$2.5 billion from approximately 85,900 investors and that owned and operated more than 11 million square feet of commercial real estate properties.

Q: How will Wells Capital select potential properties for acquisition?

A: Wells Capital will generally seek to acquire high quality office and industrial buildings located in densely populated metropolitan markets on an economically net basis leased to creditworthy companies and governmental entities. Current tenants of public real estate programs sponsored or advised by Wells Capital include The Coca-Cola Company, State Street Bank, AT&T, Siemens Automotive, PricewaterhouseCoopers, Novartis and SYSCO Corporation.

To find properties that best meet our selection criteria for investment, Wells Capital's property acquisition team will study regional demographics and market conditions and interview local brokers to gain the practical knowledge that these studies sometimes lack. An experienced commercial construction engineer will inspect the structural soundness and the operating systems of each building, and an environmental firm will investigate all environmental issues to ensure each property meets our quality specifications.

Q: How many real estate properties do you currently own?

A: We currently do not own any properties. We expect to use substantially all of the net proceeds from this offering to acquire and operate commercial real estate primarily consisting of high quality income-generating office and industrial properties leased to creditworthy companies and governmental entities. We may also invest in entities that make similar investments. Because we have not yet identified any specific properties to purchase, we are considered to be a blind pool.

Q: Will you acquire properties in joint ventures?

A: Probably. We may acquire some of our properties in joint ventures in order to diversify our portfolio of properties in terms of geographic region, property type and tenant industry group.

Q: What steps will you take to make sure you purchase environmentally compliant properties?

A: We will obtain a Phase I environmental assessment of each property purchased. In addition, we generally expect to obtain a representation from the seller that, to its knowledge, the property is not contaminated with hazardous materials.

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Q: What will be the terms of your leases?

A: We will seek to secure leases with creditworthy tenants prior to or at the time of the acquisition of a property. We expect that our leases generally will be economically net leases, which means that the tenant would be responsible for the cost of repairs, maintenance, property taxes, utilities, insurance and other operating costs. In most of these leases, we will probably be responsible for the replacement of specific structural components of a property such as the roof of the building or the parking lot. We expect that our leases generally will have terms of five or more years, some of which may have renewal options.

Q: How will Wells REIT II own its real estate properties?

A: As an UPREIT, we will own substantially all of our real estate properties through Wells Operating Partnership II, L.P., which we refer to as Wells OP II. We organized Wells OP II to own, operate and manage real properties on our behalf. Wells REIT II is the sole general partner of Wells OP II.

Q: What is an UPREIT?

A: UPREIT stands for Umbrella Partnership Real Estate Investment Trust. The UPREIT structure is used because a sale of property directly to the REIT is generally a taxable transaction to the selling property owner. In an UPREIT structure, a seller of a property who desires to defer taxable gain on the sale of his property may transfer the property to the UPREIT in exchange for limited partnership units in the UPREIT and defer taxation of gain until the seller later exchanges his UPREIT units on a one-for-one basis for REIT shares. If the REIT shares are publicly traded, the former property owner will achieve liquidity for his investment upon the exchange. Using an UPREIT structure may give us an advantage in acquiring desired properties from persons who may not otherwise sell their properties because of unfavorable tax results.

Q: If I buy shares, will I receive dividends and how often?

A: To maintain our qualification as a REIT, we are required to make aggregate annual distributions to our stockholders of at least 90% of our taxable income (which does not necessarily equal net income as calculated in accordance with accounting principles generally accepted in the United States (GAAP)). We intend to declare and pay dividends quarterly. Our board of directors may authorize distributions in excess of those required for us to maintain REIT status depending on our financial condition and such other factors as our board of directors deems relevant. We have not established a minimum distribution level.

Q: How will you calculate the payment of dividends to stockholders?

A: We expect to calculate our quarterly dividends on a daily basis to stockholders of record so your dividend benefits will begin to accrue immediately upon becoming a stockholder.

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Q: May I reinvest my dividends in shares of Wells REIT II?

A: Yes. You may participate in our dividend reinvestment plan by checking the appropriate box on the Subscription Agreement, which is attached as Exhibit A, or by filling out an enrollment form we will provide to you at your request. The purchase price for shares purchased under the dividend reinvestment plan will be the same as the offering purchase price for the shares to which the dividends relate.

Q: Will the dividends I receive be taxable as ordinary income?

A: Yes and No. Generally, dividends that you receive, including dividends that are reinvested pursuant to our dividend reinvestment plan, will be taxed as ordinary income to the extent they are from current or accumulated earnings and profits. We expect that some portion of your dividends will not be subject to tax in the year in which they are received because depreciation expense reduces the amount of taxable income but does not reduce cash available for distribution. The portion of your distribution which is not subject to tax immediately is considered a return of capital for tax purposes and will reduce the tax basis of your investment. This, in effect, defers a portion of your tax until your investment is sold or Wells REIT II is liquidated, at which time you will be taxed at capital gains rates. However, because each investor's tax considerations are different, we suggest that you consult with your tax advisor. You should also review the section of the prospectus entitled "Federal Income Tax Considerations."

Q: What will you do with the money raised in this offering?

A: We intend to use substantially all of the net proceeds from this offering to acquire and operate commercial real estate primarily consisting of high quality income-generating office and industrial properties leased to creditworthy companies and governmental entities. We intend to invest a minimum of 85% of the gross proceeds from this offering to acquire real estate properties, and we will use the remaining proceeds to pay fees and expenses of this offering and acquisition-related expenses. The payment of these fees and expenses will not reduce your invested capital. Your initial invested capital amount will remain \$10 per share, and your dividend yield will be based on your \$10 per share investment.

Until we invest the proceeds of this offering in real estate, we may invest in short-term, highly liquid or other authorized investments. Such short-term investments will not earn as high of a return as we expect to earn on our real estate investments, and we cannot guarantee how long it will take to fully invest the proceeds in real estate.

Q: What kind of offering is this?

A: We are offering the public up to 600,000,000 shares of common stock on a "best efforts" basis.

Q: How does a "best efforts" offering work?

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A: When shares are offered to the public on a best efforts basis, the brokers participating in the offering are only required to use their best efforts to sell the shares and have no firm commitment or obligation to purchase any of the shares.

Q: How long will this offering last?

A: The offering will not last beyond _____, 2005.

Q: Who can buy shares?

A: You can buy shares pursuant to this prospectus provided that you have either (1) a net worth of at least \$45,000 and an annual gross income of at least \$45,000, or (2) a net worth of at least \$150,000. For this purpose, net worth does not include your home, home furnishings or personal automobiles. These minimum levels may be higher in certain states, so you should carefully read the more detailed description in the Suitability Standards and Minimum Purchase Requirements section of this prospectus.

Q: Is there any minimum investment required?

A: Yes. Generally, you must invest at least \$1,000. Except in Maine, Minnesota, Nebraska and Washington, investors who have purchased units from an affiliated Wells public real estate program can make purchases for less than the minimum investment. These minimum investment levels may be higher in certain states, so you should carefully read the more detailed description of the minimum investment requirements appearing later in the Suitability Standards and Minimum Purchase Requirements section of this prospectus.

Q: How do I subscribe for shares?

A: If you choose to purchase shares in this offering, you will need to fill out a Subscription Agreement, like the one contained in this prospectus as Exhibit A, for a specific number of shares and pay for the shares at the time you subscribe.

Q: What happens if you don't sell at least 250,000 shares?

A: If the minimum of 250,000 shares, or \$2.5 million, is not reached before _____, 2004, we will terminate the offering and stop selling shares. In such event, within ten days after termination of the offering, the escrow agent will return your funds, including interest.

Q: If I buy shares in this offering, how may I later sell them?

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- A: At the time you purchase the shares, they will not be listed for trading on any securities exchange or over-the-counter market. In fact, we expect that there will not be any public market for the shares when you purchase them, and we cannot be sure if one will ever develop. As a result, you may find it difficult to find a buyer for your shares and realize a return on your investment. You

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may sell your shares to any buyer unless such sale would cause the buyer to own more than 9.8% of our outstanding stock. See Description of Shares Restriction on Ownership of Shares.

In addition, after you have held your shares for at least one year, you may be able to have your shares repurchased by us pursuant to our share redemption program. See the Description of Shares Share Redemption Program section of the prospectus.

We may return all or a portion of your capital contribution in connection with a sale of the company or the properties we will acquire. Alternatively, you may be able to obtain a return of all or a portion of your capital contribution in connection with the sale of your shares.

Q: When will the company seek to list its shares of common stock?

A: We will seek to list our shares of common stock when our independent directors believe listing would be in the best interest of our stockholders. If we do not list our shares of common stock on a national securities exchange or on the Nasdaq National Market by October 2017, our charter requires that we either:

seek stockholder approval of an extension or amendment of this listing deadline; or

seek stockholder approval of the liquidation of the corporation.

If we sought and did not obtain stockholder approval of an extension or amendment to the listing deadline, we would then be required to seek stockholder approval of our liquidation. If we sought and failed to obtain stockholder approval of our liquidation, our charter would not require us to list or liquidate. If we sought and obtained stockholder approval of our liquidation, we would begin an orderly sale of our properties and distribute our net proceeds to you.

Q: What is the experience of your officers and directors?

A: Our management team has extensive experience investing in and managing commercial real estate. Below is a short description of the background of each of our officers. See the Management Executive Officers and Directors section of this prospectus for a more detailed description of the background and experience of each of our officers and directors.

Leo F. Wells, III President of Wells REIT II and founder of Wells Real Estate Funds. Mr. Wells has been involved in real estate sales, management and brokerage services for over 30 years.

Douglas P. Williams Executive Vice President, Secretary and Treasurer of Wells REIT II and former accounting executive at OneSource, Inc., a supplier of janitorial and landscape services.

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Randall D. Fretz Senior Vice President of Wells REIT II and former President of US & Canada operations for Larson-Juhl, a world leader in custom art and picture-framing home decor.

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Q: Will I be notified of how my investment is doing?

A: Yes, we will provide you with periodic updates on the performance of your investment with us, including:

Four detailed quarterly dividend reports;

An annual report;

An annual IRS Form 1099-DIV, if required;

An investor newsletter;

Supplements to the prospectus; and

Three quarterly financial reports.

We will provide this information to you via one or more of the following methods, in our discretion and with your consent, if necessary:

U.S. mail or other courier;

Facsimile;

Electronic delivery; and

Posting on our website, which is www.wellsref.com.

Q: When will I get my detailed tax information?

A: Your Form 1099-DIV tax information will be mailed by January 31 of each year.

Q: Who can help answer my questions?

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- A: If you have more questions about the offering or if you would like additional copies of this prospectus, you should contact your registered representative or contact:

Client Services Department

Wells Real Estate Funds, Inc.

Suite 250

6200 The Corners Parkway

Norcross, Georgia 30092

Telephone: (800) 557-4830 or (770) 243-8282

Fax: (770) 243-8198

E-mail: client.services@wellsref.com

www.wellsref.com

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PROSPECTUS SUMMARY

This prospectus summary highlights selected information contained elsewhere in this prospectus. Because it is a summary, it is not complete and does not contain all of the information that is important to your decision whether to invest in us. To understand this offering fully, you should read the entire prospectus carefully, including the Risk Factors section and the financial statements.

Wells Real Estate Investment Trust II, Inc.

Wells Real Estate Investment Trust II, Inc. is a newly organized REIT that expects to use substantially all of the net proceeds from this offering to acquire and operate commercial real estate primarily consisting of high quality income-generating office and industrial properties leased to creditworthy companies and governmental entities. Because we have not yet identified any specific properties to purchase, we are considered to be a blind pool.

Our office is located at 6200 The Corners Parkway, Suite 250, Norcross, Georgia 30092. Our telephone number outside the State of Georgia is 800-557-4830 (770-243-8282 in Georgia). Our fax number is (770) 243-8198, and the e-mail address of our investor relations department is client.services@wellsref.com.

We also maintain an Internet site at www.wellsref.com at which there is additional information about us and our affiliates, but the contents of that site are not incorporated by reference in or otherwise a part of this prospectus.

Our Advisor

Our advisor is Wells Capital, which will be responsible for managing our affairs on a day-to-day basis and for identifying and making acquisitions on our behalf.

Our Management

Prior to commencement of this offering, we expect to have nine members on our board of directors. Seven of our directors will be independent of Wells Capital. Our charter creates a committee of our board comprised solely of all of our independent directors. This committee, which we call the conflicts committee, is responsible for reviewing the performance of Wells Capital. The conflicts committee must also approve each real property acquisition proposed by Wells Capital, as well as certain other matters set forth in our charter. Our directors are elected annually by the stockholders.

Our REIT Status

As a REIT, we generally will not be subject to federal income tax on income that we distribute to our stockholders. Under the Internal Revenue Code, REITs are subject to numerous organizational and operational requirements, including a requirement that they distribute at least 90% of their annual taxable income to their stockholders. If we fail to qualify for taxation as a REIT in any year, our income will be taxed at regular corporate rates, and we may be precluded from qualifying for treatment as a REIT for the four-year period following our failure to qualify. Even if we qualify as a REIT for federal income tax purposes, we may still be subject to state and local taxes on our income and property and to federal income and excise taxes on our undistributed income.

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Summary Risk Factors

Following are the most significant risks relating to your investment:

No public market currently exists for our shares of common stock. If you are able to sell your shares, you would likely have to sell them at a substantial discount from their public offering price.

We have no operating history nor do we currently own any properties. We have not identified any properties to acquire with proceeds from this offering.

If we raise substantially less than the maximum offering, we may not be able to invest in a diverse portfolio of properties and the value of your investment may vary more widely with the performance of specific properties.

We will rely on Wells Capital, our advisor, to select properties and other investments and conduct our operations.

Our advisor and its affiliates will face conflicts of interest, including significant conflicts created by our advisor's compensation arrangements with us and other Wells-sponsored programs.

Our policies do not limit borrowings until they exceed 50% of our net assets, which debt levels could hinder our ability to pay dividends to our stockholders or could decrease the value of your investment.

Before you invest in us, you should see the complete discussion of the Risk Factors beginning on page 16 of this prospectus.

Description of Real Estate Investments

We expect to use substantially all of the net proceeds from this offering to acquire and operate commercial real estate primarily consisting of high quality income-generating office and industrial properties leased to creditworthy companies and governmental entities. We may also invest in entities that make similar investments. Because we have not yet identified any specific properties to purchase, we are considered to be a blind pool. As we acquire properties, we will supplement this prospectus to describe material changes to our portfolio.

Estimated Use of Proceeds of Offering

We anticipate that we will invest at least 85% of the gross proceeds of this offering in real estate properties. We will use the remainder of the offering proceeds to pay selling commissions, fees and expenses relating to the selection and acquisition of properties and the costs of the offering.

Investment Objectives

Our investment objectives are:

to provide current income for you through the payment of cash dividends;

to preserve and return your capital contributions; and

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to realize growth in the value of the properties we acquire upon our ultimate sale of such properties.

See the Investment Objectives and Criteria section of this prospectus for a more complete description of our policies and charter-imposed investment restrictions.

Conflicts of Interest

Wells Capital, as our advisor, will experience conflicts of interest in connection with the management of our business affairs, including the following:

Wells Capital must determine which investment opportunities to recommend to us or another Wells program or joint venture;

Wells Capital may structure the terms of joint ventures between us and other Wells-sponsored programs;

Wells Capital and its affiliates will have to allocate their time between us and other real estate programs and activities in which they are involved;

Wells Capital and its affiliates will receive fees in connection with transactions involving the purchase, management and sale of our properties regardless of the quality of the property acquired or the services provided to us; and

Wells Capital and its affiliates will also receive fees in connection with our public offerings of equity securities.

Our officers and two of our directors will also face these conflicts because of their affiliation with Wells Capital. See the Conflicts of Interest section of this prospectus for a detailed discussion of the various conflicts of interest relating to your investment, as well as the procedures that we have established to resolve a number of these potential conflicts.

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The following chart shows the ownership structure of the various Wells entities that are affiliated with Wells Capital.

Prior Offering Summary

As of December 31, 2002, Wells Capital and its affiliates had sponsored 14 publicly offered real estate limited partnerships and Wells REIT I on an unspecified property or "blind pool" basis. As of December 31, 2002, they have raised in excess of \$2.5 billion from approximately 85,900 investors in these 15 public real estate programs. The "Prior Performance Summary" of this prospectus contains a discussion of the Wells programs sponsored to date. We also provide certain statistical data relating to the Wells programs with investment objectives similar to ours in the "Prior Performance Tables" included at the end of this prospectus.

The Offering

We are offering up to 600,000,000 shares of our common stock, including shares offered pursuant to our dividend reinvestment plan, at \$10 per share. We will, however, waive the 7% selling commission, and in some circumstances the dealer manager fee, for certain categories of purchasers. See "Plan of Distribution." We will offer shares of our common stock until the earlier of _____, 2005 or the date we sell all \$6.0 billion worth of shares in this offering. We may terminate this offering at any time prior to such termination date. This offering must be registered, or exempt from registration, in every state in which we offer or sell shares. Generally, such registrations are for a period of one year. Therefore, we may have to stop selling shares in any state in which the registration is not renewed annually. We will not sell any shares unless we sell a minimum of 250,000 shares by _____, 2004 (one year from the date of this prospectus). Pending satisfaction of this

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condition, all subscription payments will be placed in an account held by the escrow agent, SouthTrust Bank, in trust for subscribers' benefit, pending release to us. If we do not sell 250,000 shares by _____, 2004, we will terminate this offering and return all subscribers' funds, plus interest. Funds in escrow will be invested in short-term investments that mature on or before _____, 2004 or that can be readily sold or otherwise disposed of for cash by such date without any dissipation of the offering proceeds invested.

Compensation to Wells Capital

Wells Capital and its affiliates will receive compensation and reimbursement for services relating to this offering and the investment and management of our assets. The most significant items of compensation are included in the following table:

		<i>Estimated Amount</i>
		<i>for Maximum</i>
		<i>Offering</i>
		<i>(600,000,000</i>
<i>Type of Compensation</i>	<i>Form of Compensation</i>	<i>shares)</i>
	<i>Offering Stage</i>	
Selling Commissions	7.0% of gross offering proceeds	\$420,000,000
Dealer Manager Fee	2.5% of gross offering proceeds	\$150,000,000
Organization and	Up to 2.0% of gross offering proceeds	\$60,000,000
Offering Expenses		(estimated)
	<i>Acquisition and Development Stage</i>	
Acquisition and	3.0% of gross offering proceeds	\$180,000,000
Advisory Fees		
Acquisition Expenses	0.5% of gross offering proceeds	\$30,000,000
	<i>Operational Stage</i>	
Asset and Property	0.5% of fair market value of all properties owned by us	N/A
Management and Leasing		
Fees		
Initial Lease-Up Fee for	Competitive fee for geographic location of property based on a survey of brokers and agents (customarily equal to the first month's rent)	N/A
Newly Constructed		
Property		
Real Estate Commissions		N/A

	3.0% of contract price for properties sold after investors receive a return of capital plus an 8.0% return on capital	
Operating Expenses	Reimbursement of actual expenses paid by the Advisor and its affiliates for administrative services	N/A
Subordinated Participation	10.0% of remaining amounts of net sale proceeds after return of capital plus	N/A
In Net Sale Proceeds	payment to investors of an 8.0% cumulative non-compounded return on the capital contributed by investors	
(payable only if we are		
not listed on an exchange)		
Subordinated Incentive		N/A
Listing Fee (payable only	10.0% of the amount by which our adjusted market value exceeds the aggregate capital contributions contributed by investors	
if we are listed on an exchange)		

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There are many additional conditions and restrictions on the amount of compensation Wells Capital and its affiliates may receive.

Dividend Policy

To maintain our qualification as a REIT, we are required to make aggregate annual distributions to our stockholders of at least 90% of our taxable income (which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles (GAAP)). Our board of directors may authorize distributions in excess of those required for us to maintain REIT status depending on our financial condition and such other factors as our board of directors deems relevant. We have not established a minimum distribution level. We expect to calculate our quarterly dividends based upon daily record and dividend declaration dates so investors will be entitled to dividends immediately upon purchasing our shares.

Listing

We will seek to list our shares of common stock when our independent directors believe listing would be in the best interest of our stockholders. If we do not list our shares of common stock on a national securities exchange or on the Nasdaq National Market by October 2017, our charter requires that we either:

seek stockholder approval of an extension or amendment of this listing deadline; or

seek stockholder approval of the liquidation of the corporation.

If we sought and did not obtain stockholder approval of an extension or amendment to the listing deadline, we would then be required to seek stockholder approval of our liquidation. If we sought and failed to obtain stockholder approval of our liquidation, our charter would not require us to list or liquidate. If we sought and obtained stockholder approval of our liquidation, we would begin an orderly sale of our properties and distribute our net proceeds to you.

Dividend Reinvestment Plan

You may participate in our dividend reinvestment plan pursuant to which you may have the dividends you receive reinvested in additional shares of our common stock. If you participate, you will not receive the cash from your dividends. As a result, you may have a tax liability with respect to your share of our taxable income, but you will not receive cash dividends to pay such liability. We may terminate the dividend reinvestment plan at our discretion at any time upon 10 days notice to you.

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Share Redemption Program

We may use proceeds received from the sale of shares pursuant to our dividend reinvestment plan to redeem your shares. After you have held your shares for a minimum of one year, our share redemption program provides an opportunity for you to redeem your shares at a discount from the price at which we are selling our shares in this offering. Upon the death of a stockholder, however, the one-year holding period is inapplicable and the estate may redeem the shares at their purchase price in this offering. Our board of directors reserves the right to amend or terminate the share redemption program at any time.

Wells Operating Partnership II, L.P.

We expect to own substantially all of our real estate properties through Wells OP II, our operating partnership. We are the sole general partner of Wells OP II. Wells Capital has irrevocably agreed to purchase \$200,000 of limited partner units in Wells OP II prior to commencement of this offering. This structure will allow sellers of properties to transfer their properties to Wells OP II in exchange for limited partnership interests of Wells OP II and defer gain recognition for tax purposes with respect to such transfers of properties. At present, we have no plans to acquire any specific properties in exchange for units of Wells OP II. The holders of units in Wells OP II may have their units redeemed for cash or, at our option, shares of our common stock.

ERISA Considerations

The section of this prospectus entitled "ERISA Considerations" describes the effect the purchase of shares will have on individual retirement accounts and retirement plans subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA), and/or the Internal Revenue Code. ERISA is a federal law that regulates the operation of certain tax-advantaged retirement plans. Any retirement plan trustee or individual considering purchasing shares for a retirement plan or an individual retirement account should read this section of the prospectus very carefully.

Description of Shares

General

Our board of directors has authorized the issuance of shares of our capital stock without certificates. We expect that, until our shares are listed on a national securities exchange or the Nasdaq Stock Market, we will not issue shares in certificated form. We maintain a stock ledger that contains the name and address of each stockholder and the number of shares that the stockholder holds. With respect to uncertificated stock, we will continue to treat the stockholder registered on our stock ledger as the owner of the shares until the new owner delivers a properly executed form to us, which we will provide to any registered holder upon request.

Stockholder Voting Rights and Limitations

We intend to hold annual meetings of our stockholders for the purpose of electing our directors or conducting other business matters that may be presented at such meetings. We may also call a special meeting of stockholders from time to time. You are entitled to one vote for each share of common stock you own at any of these meetings.

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Restriction on Share Ownership

Our charter contains restrictions on ownership of the shares that prevent any one person from owning more than 9.8% of our outstanding shares. These restrictions are designed to enable us to comply with ownership restrictions imposed on REITs by the Internal Revenue Code. Our charter also limits your ability to transfer your shares to prospective stockholders unless they meet suitability standards regarding income or net worth.

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RISK FACTORS

An investment in our common stock involves various risks and uncertainties. You should carefully consider the following risk factors in conjunction with the other information contained in this prospectus before purchasing our common stock. The risks discussed in this prospectus can adversely affect our business, operating results, prospects and financial condition. This could cause the value of our common stock to decline and could cause you to lose all or part of your investment. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business.

Risks Related to an Investment In Us

There is no public trading market for your shares; therefore, it will be difficult for you to sell your shares.

There is no current public market for the shares. You may not sell your shares unless the buyer meets applicable suitability standards. Our charter also imposes restrictions on the ownership of stock that will apply to potential transferees, which may inhibit your ability to sell your shares. Moreover, you may not be able to sell your shares to us under our discretionary share redemption program because we may amend, suspend or terminate our share redemption program at any time and because of the restrictions we have imposed under the program. Therefore, it will be difficult for you to sell your shares promptly or at all. If you are able to sell your shares, you would likely have to sell them at a substantial discount to their public offering price. It is also likely that your shares would not be accepted as the primary collateral for a loan. You should purchase the shares only as a long-term investment.

If we, through Wells Capital, are unable to find suitable investments, then we may not be able to achieve our investment objectives or pay dividends.

Our ability to achieve our investment objectives and to pay dividends is dependent upon the performance of Wells Capital, our advisor, in the acquisition of our investments, the selection of tenants and the determination of any financing arrangements. Except for the investments described in one or more supplements to this prospectus, you will have no opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments. You must rely entirely on the management ability of Wells Capital and the oversight of our board of directors. We cannot be sure that Wells Capital will be successful in obtaining suitable investments on financially attractive terms or that, if Wells Capital makes investments on our behalf, our objectives will be achieved. If we, through Wells Capital, are unable to find suitable investments, we will hold the proceeds of this offering in an interest-bearing account, invest the proceeds in short-term, investment-grade investments or, ultimately, liquidate. In such an event, our ability to pay dividends to our stockholders would be adversely affected.

We may suffer from delays in locating suitable investments, which could adversely affect the return on your investment.

We could suffer from delays in locating suitable investments, particularly as a result of our reliance on our advisor at times when management of our advisor is simultaneously seeking to locate suitable investments for other affiliated programs. Delays we encounter in the selection, acquisition and development of properties could adversely affect your returns. In addition, where we acquire properties prior to the start of construction or during the early stages of construction, it will typically take several months to complete construction and rent available space. Therefore, you could suffer delays in the distribution of cash dividends attributable to those particular properties. In addition, if we are unable to

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invest our offering proceeds in income-producing real properties in a timely manner, our ability to pay dividends to our stockholders would be adversely affected.

This is a blind pool offering; so you will not have the opportunity to evaluate our investments before we make them.

Because we have not yet acquired or identified any investments that we may make, we are not able to provide you with information to evaluate our investments prior to acquisition. We will seek to invest substantially all of the offering proceeds available for investment, after the payment of fees and expenses, in the acquisition of commercial properties. We have established policies relating to the creditworthiness of tenants, but our board of directors will have wide discretion in implementing these policies, and you will not have the opportunity to evaluate potential tenants, managers or borrowers.

If we are unable to raise substantial funds, we will be limited in the number and type of investments we may make and the value of your investment in us will fluctuate with the performance of the specific properties we acquire.

This offering is being made on a best efforts basis, whereby the brokers participating in the offering are only required to use their best efforts to sell our shares and have no firm commitment or obligation to purchase any of the shares. As a result, we cannot assure you as to the amount of proceeds that will be raised in this offering or that we will achieve sales of the minimum offering amount. If we are unable to raise substantially more than the minimum offering amount, we will make fewer investments resulting in less diversification in terms of the number of investments owned, the geographic regions in which our investments are located and the types of investments that we make. In such event, the likelihood of our profitability being affected by the performance of any one of our investments will increase. For example, in the event we only raise the minimum amount of \$2.5 million, we will most likely make our investments through one or more joint ventures and may only be able to make one investment. If we only are able to make one investment, we would not achieve any diversification of our assets. Additionally, we are not limited in the number or size of our investments or the percentage of net proceeds we may dedicate to a single investment. Your investment in our shares will be subject to greater risk to the extent that we lack a diversified portfolio of investments. In addition, if we are unable to raise substantial funds, our fixed operating expenses, as a percentage of gross income, would be higher, and our financial condition and ability to pay distributions could be adversely affected.

We have no prior operating history or established financing sources, and the prior performance of real estate investment programs sponsored by our advisor may not be an indication of our future results.

We have no operating history and you should not rely upon the past performance of other real estate investment programs sponsored by our advisor or its affiliates to predict our future results. We were incorporated in July 2003, and as of the date of this prospectus we have not made any investments in real estate or otherwise.

If we lose or are unable to obtain key personnel, our ability to implement our investment strategies could be delayed or hindered.

Our success depends to a significant degree upon the contributions of Leo F. Wells, III, Douglas P. Williams and Randall D. Fretz, each of whom would be difficult to replace. We do not have employment agreements with Messrs. Wells, Williams or Fretz, and we cannot guarantee that such persons will remain affiliated with us. Although Messrs. Wells, Williams and Fretz have entered into employment agreements with Wells Capital, these agreements are terminable at will, and we cannot guarantee that such persons will remain affiliated with Wells Capital or us.

If any of our key personnel

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were to cease their affiliation with us, our operating results could suffer. We do not intend to separately maintain key person life insurance on any person. We believe that our future success depends, in large part, upon our advisor's ability to hire and retain highly skilled managerial, operational and marketing personnel. Competition for such personnel is intense, and we cannot assure you that our advisor will be successful in attracting and retaining such skilled personnel. Further, we intend to establish strategic relationships with firms that have special expertise in certain services or as to real properties in certain geographic regions. Maintaining such relationships will be important for us to effectively compete with other investors for properties in such regions. We cannot assure you that we will be successful in attracting and retaining such relationships. If we lose or are unable to obtain the services of key personnel or do not establish or maintain appropriate strategic relationships, our ability to implement our investment strategies could be delayed or hindered.

Our rights, and the rights of our stockholders, to recover claims against our officers, directors and our advisor are limited.

Maryland law provides that a director has no liability in that capacity if he performs his duties in good faith, in a manner he reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Our charter limits the liability of our directors and officers to us or our stockholders for monetary damages to the maximum extent permitted under Maryland law. In addition, subject to some limitations, our charter and the Wells OP II partnership agreement require that the corporation and Wells OP II indemnify our directors and officers and, when acting as our agents, the advisor and its affiliates to the maximum extent permitted under Maryland law. Our charter permits our board to indemnify our employees and other agents as well. As a result, we and our stockholders may have more limited rights against our directors or officers or our employees, advisor or other agents than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our advisor and directors, officers, employees and agents in some cases.

Risks Related to Conflicts of Interest

Wells Capital will face conflicts of interest relating to the purchase and leasing of properties, and such conflicts may not be resolved in our favor.

We rely on our advisor to identify suitable investment opportunities. Other Wells-sponsored programs, especially those that are currently raising offering proceeds, such as Wells Fund XIV and Wells REIT I, also rely on Wells Capital for investment opportunities. Many investment opportunities would be suitable for us as well as other Wells programs. If Wells Capital directs an investment opportunity to a Wells-sponsored program, it will offer the investment opportunity to the program for which the opportunity, in the discretion of Wells Capital, is most suitable. As a result, Wells Capital could direct attractive investment opportunities to other entities or even purchase them for its own account. Our charter disclaims any interest in an investment opportunity known to Wells Capital that Wells Capital has not recommended to us.

Wells Capital will face conflicts of interest relating to joint ventures that we may form with affiliates of Wells Capital, which conflicts could result in a disproportionate benefit to the other venture partners at our expense.

We are likely to enter into joint venture agreements with other Wells programs for the acquisition, development or improvement of properties. Wells Capital may have conflicts of interest in determining which Wells program should enter into any particular joint venture agreement. The co-venturer may have economic or business interests or goals that are or may become inconsistent with our

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business interests or goals. In addition, Wells Capital may face a conflict in structuring the terms of the relationship between our interests and the interest of the affiliated co-venturer and in managing the joint venture. Since Wells Capital and its affiliates will control both the affiliated co-venturer and, to a certain extent, us, agreements and transactions between the co-venturers with respect to any such joint venture will not have the benefit of arm's-length negotiation of the type normally conducted between unrelated co-venturers.

Wells Capital, its affiliates and our officers will face competing demands relating to their time, and this may cause our operations to suffer.

We rely on Wells Capital and its affiliates for the day-to-day operation of our business. As a result of their interests in other Wells programs and the fact that they also engage in other business activities, Wells Capital and its affiliates, including our officers, will have conflicts of interest in allocating their time between us and other Wells programs and activities in which they are involved. Because these persons have competing interests on their time and resources, they may have conflicts of interest in allocating their time between our business and these other activities. During times of intense activity in other programs and ventures, they may devote less time and resources to our business than is necessary or appropriate. If this occurs, the returns on our investments may suffer.

Our officers and some of our directors face conflicts of interest related to the positions they hold with Wells Capital and its affiliates, which could diminish the value of the services they provide to us.

Our executive officers and some of our directors are also officers and directors of our advisor, our property manager, our dealer manager and other affiliated entities. As a result, they owe fiduciary duties to these various entities and their stockholders and limited partners, which fiduciary duties may from time to time conflict with the fiduciary duties that they owe to us and our stockholders.

Wells Capital and its affiliates, including our officers and some of our directors, will face conflicts of interest caused by compensation arrangements with us and other Wells-sponsored programs which could result in actions that are not in the long-term best interests of our stockholders.

Wells Capital and its affiliates will receive substantial fees from us. These fees could influence our advisor's advice to us, as well as the judgment of the affiliates of Wells Capital who serve as our officers or directors. Among other matters, the compensation arrangements could affect their judgment with respect to:

the continuation, renewal or enforcement of our agreements with Wells Capital and its affiliates, including the Advisory Agreement, the Asset and Property Management Agreement, and the Dealer Manager Agreement;

public offerings of equity by us, which entitle Wells Investment Securities to underwriting fees and entitle Wells Capital to increased advisory fees;

property sales, which entitle Wells Capital to real estate commissions and possible success-based sale fees;

property acquisitions from other Wells-sponsored programs, which might entitle Wells Capital to real estate commissions and possible success-based sale fees in connection with its services for the seller;

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property acquisitions from third parties, which utilize proceeds from our public offerings, thereby increasing the likelihood of continued equity offerings and related fee income for Wells Investment Securities and Wells Capital;

whether and when we seek to list our common stock on a national securities exchange or the Nasdaq National Market, which listing could entitle Wells Capital to a success-based listing fee but could also adversely affect its sales efforts for other programs depending on the price at which the shares trade; and

whether and when we seek to sell the company or its assets, which sale could entitle Wells Capital to a success-based fee but could also adversely affect its sales efforts for other programs depending upon the sales price for the company or its assets.

The advisory and acquisition fees paid to Wells Capital and the management and leasing fees paid to its affiliate, Wells Management Company, are paid irrespective of the quality of their acquisition or property-management services. Moreover, Wells Capital has considerable discretion with respect to the terms and timing of acquisition, disposition and leasing transactions.

Our operating performance could suffer if Wells Capital incurs losses as a result of being the general partner of other entities.

As a general partner to many Well-sponsored programs, Wells Capital may have contingent liability for the obligations of such partnerships that, if such obligations were enforced against them, could result in a substantial reduction of its net worth. If such liabilities affected the level of services that Wells Capital could provide, our operations and financial performance could suffer as well.

There is no separate counsel for us and our affiliates, which could result in conflicts of interest.

Alston & Bird LLP is counsel both to us and to Wells Capital and its affiliates, including Wells Investment Securities, Wells Management Company and Wells Development Corporation. There is a possibility that in the future the interests of the various parties may conflict. If we do not obtain separate counsel when our interests conflict with those of Wells Capital and its affiliates, our counsel's loyalties to Wells Capital and its affiliates could interfere with its independent professional judgment in considering alternatives that we should pursue. A committee of our independent directors is authorized to engage separate counsel for advice when considering matters where the interests of Wells Capital and its affiliates could conflict with our interests.

Risks Related to our Business in General

A limit on the number of shares a person may own may discourage a takeover.

Our articles of incorporation, with certain exceptions, authorize our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors, no person may own more than 9.8% of our outstanding common stock. This restriction may have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock.

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Our articles of incorporation permit our board of directors to issue stock with terms that may subordinate the rights of the holders of our current common stock or discourage a third party from acquiring us.

Our board of directors may classify or reclassify any unissued common stock or preferred stock and establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, or terms or conditions of redemption of any such stock. Thus, our board of directors could authorize the issuance of such stock with terms and conditions that could subordinate the rights of the holders of our common stock or have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock.

Because Maryland law permits our board to adopt certain anti-takeover measures without stockholder approval, investors may be less likely to receive a control premium for their shares.

In 1999, the State of Maryland enacted legislation that enhances the power of Maryland corporations to protect themselves from unsolicited takeovers. Among other things, the legislation permits our board, without stockholder approval, to amend our charter, to:

stagger our board of directors into three classes;

require a two-thirds vote for removal of directors;

provide that only remaining directors may fill a vacancy on the board;

provide that only the board can fix the size of the board;

provide that all vacancies on the board, however created, may be filled only by the affirmative vote of a majority of the remaining directors in office; and

require that special stockholder meetings may only be called by holders of a majority of the voting shares entitled to be cast at the meeting.

The adoption of any of these provisions may discourage a hostile takeover, which may prevent stockholders from receiving a control premium for their shares.

Your investment return may be reduced if we are required to register as an investment company under the Investment Company Act.

We do not intend to register as an investment company under the Investment Company Act of 1940, as amended. If we were obligated to register as an investment company, we would have to comply with a variety of substantive requirements under the Investment Company Act imposing,

among other things:

limitations on capital structure;

restrictions on specified investments;

prohibitions on transactions with affiliates; and

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compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly increase our operating expenses.

In order to maintain our exemption from regulation under the Investment Company Act, we must engage primarily in the business of buying real estate, and these investments must be made within a year after the offering ends. If we are unable to invest a significant portion of the proceeds of this offering in properties within one year of the termination of the offering, we may avoid being required to register as an investment company by temporarily investing any unused proceeds in government securities with low returns. This would reduce the cash available for distribution to investors and possibly lower your returns.

To maintain compliance with the Investment Company Act exemption, we may be unable to sell assets we would otherwise want to sell and may need to sell assets we would otherwise wish to retain. In addition, we may have to acquire additional income or loss generating assets that we might not otherwise have acquired or may have to forgo opportunities to acquire interests in companies that we would otherwise want to acquire and would be important to our investment strategy. If we were required to register as an investment company but failed to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court were to require enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

Stockholders have limited control over changes in our policies and operations.

Our board of directors determines our major policies, including our policies regarding financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. Under the Maryland General Corporation Law and our articles of incorporation, our stockholders have a right to vote only on limited matters.

You are limited in your ability to sell your shares pursuant to the share redemption program.

Generally, you must have held your shares for at least one year in order to participate in our share redemption program. The program is not available to those who purchase their shares from another stockholder. Subject to funds being available, we will limit the number of shares redeemed pursuant to our share redemption program as follows: (1) during any calendar year, we will not redeem in excess of 3.0% of the weighted average number of shares outstanding during the prior calendar year; and (2) funding for the redemption of shares will come exclusively from the proceeds we receive from the sale of shares under our dividend reinvestment plan such that in no event shall the aggregate amount of redemptions under our share redemption program exceed aggregate proceeds received from the sale of shares pursuant to our dividend reinvestment plan. We cannot guarantee that the funds set aside for our share redemption program will be sufficient to accommodate all requests made in any year. The board of directors, in its sole discretion, may choose to terminate or amend the share redemption program at any time.

We established the offering price on an arbitrary basis; as a result, your subscription price for shares is not related to any independent valuation.

Our board of directors has arbitrarily determined the selling price of the shares, and such price bears no relationship to our book or asset values or to any other established criteria for valuing issued or outstanding shares.

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Because the dealer manager is one of our affiliates, investors will not have the benefit of an independent review of us or the prospectus customarily undertaken in underwritten offerings.

The dealer manager, Wells Investment Securities, is one of our affiliates and will not make an independent review of us or the offering. Accordingly, you do not have the benefit of an independent review of the terms of this offering. Further, the due diligence investigation of us by the dealer manager cannot be considered to be an independent review and, therefore, may not be as meaningful as a review conducted by an unaffiliated broker-dealer or investment banker.

Your interest in us will be diluted if we issue additional shares.

Potential investors in this offering do not have preemptive rights to any shares issued by us in the future. Our amended and restated charter will authorize the issuance of 1,000,000,000 shares of capital stock, of which 900,000,000 shares will be designated as common stock and 100,000,000 will be designated as preferred stock. Our board of directors may increase the number of authorized shares of capital stock, without stockholder approval. After your purchase in this offering, we may, in the sole discretion of our board, (1) sell additional shares in this or future offerings, (2) sell securities that are convertible into shares of our common stock, (3) issue equity interests in a private offering of securities, (4) issue shares of our common stock upon the exercise of the options granted to our independent directors or employees of Wells Capital or its affiliates, (5) issue shares to our advisor, its successors or assigns, in payment of an outstanding fee obligation, or (6) issue shares of our common stock to sellers of properties acquired by us in connection with an exchange of limited partnership interests of Wells OP II. To the extent we issue additional equity interests after your purchase in this offering, your equity interest in us will be diluted.

Payment of fees to Wells Capital and its affiliates will reduce cash available for investment and distribution.

Wells Capital and its affiliates will perform services for us in connection with the offer and sale of the shares, the selection and acquisition of our investments, and the management and leasing of our properties and the administration of our other investments. They will be paid substantial fees for these services, which will reduce the amount of cash available for investment in properties or distribution to stockholders.

There can be no assurance that we will be able to pay or maintain cash distributions or that distributions will increase over time.

There are many factors that can affect the availability and timing of cash distributions to stockholders. Distributions will be made principally from cash available from our operations. With no prior operations, there is no basis for anyone to predict the amount of distributions you may receive. We can give no assurance that we will be able to pay or maintain distributions or that distributions will increase over time.

Adverse economic conditions will negatively affect our returns and profitability.

Recent geopolitical events have exacerbated the general economic slowdown that has affected the nation as a whole and the local economies where our properties may be located. The length and severity of any economic downturn cannot be predicted. In addition, our operating results may be affected by the following market and economic challenges:

Poor economic times may result in defaults by tenants of our properties.

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Job transfers and layoffs may cause vacancies to increase.

Increasing concessions or reduced rental rates may be required to maintain occupancy levels.

Increased insurance premiums may reduce funds available for distribution or, to the extent such increases are passed through to tenants, may lead to tenant defaults. Also, increased insurance premiums may make it difficult to increase rents to tenants on turnover, which may adversely affect our ability to increase our returns.

Our operations could be negatively affected to the extent that an economic downturn is prolonged or becomes more severe.

We are uncertain of our sources for funding of future capital needs, which could adversely affect the value of our investments.

Substantially all of the gross proceeds of the offering will be used to buy real estate and to pay various fees and expenses. Accordingly, we may have to obtain financing from either affiliated or unaffiliated sources to fund our other cash requirements. We have not identified any sources for such funding, and we cannot assure you that, if we develop a need for additional capital in the future for the improvement of our properties or for any other reason, sources of funding will be available to us on favorable terms or at all.

General Risks Related To Investments In Real Estate

Our operating results will be affected by economic and regulatory changes that have an adverse impact on the real estate market in general, and we cannot assure you that we will be profitable or that we will realize growth in the value of our real estate properties.

Our operating results will be subject to risks generally incident to the ownership of real estate, including:

changes in general economic or local conditions;

changes in supply of or demand for similar or competing properties in an area;

changes in interest rates and availability of permanent mortgage funds which may render the sale of a property difficult or unattractive;

changes in tax, real estate, environmental and zoning laws; and

periods of high interest rates and tight money supply.

For these and other reasons, we cannot assure you that we will be profitable or that we will realize growth in the value of our real estate properties.

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Properties that have significant vacancies could be difficult to sell, which could diminish the return on your investment.

A property may incur vacancies either by the continued default of tenants under their leases or the expiration of tenant leases. If vacancies continue for a long period of time, we may suffer reduced revenues resulting in less cash dividends to be distributed to stockholders. In addition, the resale value of the property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property.

We depend on tenants for our revenue, and lease terminations could reduce our distributions to our stockholders.

The success of our investments materially depends on the financial stability of our tenants. Lease payment defaults by tenants could cause us to reduce the amount of distributions to stockholders. A default by a significant tenant on its lease payments to us would cause us to lose the revenue associated with such lease and cause us to have to find an alternative source of revenue to meet mortgage payments and prevent a foreclosure if the property is subject to a mortgage. In the event of a tenant default or bankruptcy, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-letting our property. If significant leases are terminated, we cannot assure you that we will be able to lease the property for the rent previously received or sell the property without incurring a loss.

We may be unable to secure funds for future tenant improvements, which could adversely impact our ability to pay cash distributions to our stockholders.

When tenants do not renew their leases or otherwise vacate their space, it is usual that, in order to attract replacement tenants, we will be required to expend substantial funds for tenant improvements and tenant refurbishments to the vacated space. If we have insufficient working capital reserves, we will have to obtain financing from other sources. We cannot assure you that sufficient financing will be available or, if available, will be available on economically feasible terms or on terms acceptable to us. Additional borrowing for working capital purposes will increase our interest expense, and therefore our financial condition and our ability to pay cash distributions to our stockholders may be adversely affected.

We may be unable to sell a property if or when we decide to do so, which could adversely impact our ability to pay cash distributions to our stockholders.

The real estate market is affected, as set forth above, by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. If we are unable to sell a property when we determine to do so, it could have a significant adverse effect on our cash flow and results of operations.

Uninsured losses relating to real property or excessively expensive premiums for insurance coverage may adversely affect your returns.

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Wells Capital will attempt to obtain adequate insurance on all of our properties to cover casualty losses. However, there are types of losses, generally catastrophic in nature, such as losses due to wars, acts of terrorism, earthquakes, floods, hurricanes, pollution or environmental matters, which are uninsurable or not economically insurable, or may be insured subject to limitations, such as large

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deductibles or co-payments. Insurance risks associated with potential terrorism acts could sharply increase the premiums we pay for coverage against property and casualty claims. Additionally, mortgage lenders in some cases have begun to insist that specific coverage against terrorism be purchased by commercial property owners as a condition for providing mortgage loans. It is uncertain whether such insurance policies will be available, or available at reasonable cost, which could inhibit our ability to finance or refinance our properties. In such instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We cannot assure you that we will have adequate coverage for such losses. In the event that any of our properties incurs a casualty loss that is not fully covered by insurance, the value of our assets will be reduced by any such uninsured loss. In addition, other than the working capital reserve or other reserves we may establish, we have no source of funding to repair or reconstruct any uninsured damaged property, and we cannot assure you that any such sources of funding will be available to us for such purposes in the future. Also, to the extent we must pay unexpectedly large amounts for insurance, we could suffer reduced earnings that would result in less cash dividends to be distributed to stockholders.

Our operating results may be negatively affected by potential development and construction delays and resultant increased costs and risks.

We may invest some or all of the proceeds available for investment in the acquisition and development of properties upon which we will develop and construct improvements at a fixed contract price. We will be subject to risks relating to uncertainties associated with re-zoning for development and environmental concerns of governmental entities and/or community groups and our builder's ability to control construction costs or to build in conformity with plans, specifications and timetables. The builder's failure to perform may necessitate legal action by us to rescind the purchase or the construction contract or to compel performance. Performance may also be affected or delayed by conditions beyond the builder's control. Delays in completion of construction could also give tenants the right to terminate preconstruction leases for space at a newly developed project. We may incur additional risks when we make periodic progress payments or other advances to such builders prior to completion of construction. These and other such factors can result in increased costs of a project or loss of our investment. In addition, we will be subject to normal lease-up risks relating to newly constructed projects. Furthermore, we must rely upon projections of rental income and expenses and estimates of the fair market value of property upon completion of construction when agreeing upon a price to be paid for the property at the time of acquisition of the property. If our projections are inaccurate, we may pay too much for a property, and our return on our investment could suffer.

In addition, we may invest in unimproved real property. Returns from development of unimproved properties are also subject to risks and uncertainties associated with re-zoning the land for development and environmental concerns of governmental entities and/or community groups. Although our intention is to limit any investment in unimproved property to property we intend to develop, your investment nevertheless is subject to the risks associated with investments in unimproved real property.

Competition with third parties in acquiring properties and other investments may reduce our profitability and the return on your investment.

We compete with many other entities engaged in real estate investment activities, including individuals, corporations, bank and insurance company investment accounts, other REITs, real estate limited partnerships, and other entities engaged in real estate investment activities, many of which have greater resources than we do. Larger REITs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investments may increase. Any such increase would result in increased demand for these assets and therefore increased prices paid for them. If

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we pay higher prices for properties and other investments, our profitability will be reduced and you may experience a lower return on your investment.

Delays in acquisitions of properties may have adverse effects on your investment.

There may be a substantial period of time before the proceeds of this offering are invested. Delays we encounter in the selection, acquisition and development of properties could adversely affect your returns. Where properties are acquired prior to the start of construction or during the early stages of construction, it will typically take several months to complete construction and rent available space. Therefore, you could suffer delays in the payment of cash dividends attributable to those particular properties. You should expect to wait several months after the closing of a property acquisition before we are in a position to pay cash dividends attributable to such property.

Uncertain market conditions relating to the future disposition of properties could adversely affect the return on your investment.

We intend to hold the various real properties in which we invest until such time as Wells Capital determines that a sale or other disposition appears to be advantageous to achieve our investment objectives or until it appears that such objectives will not be met. Otherwise, Wells Capital, subject to approval of our board of directors, may exercise its discretion as to whether and when to sell a property, and we will have no obligation to sell properties at any particular time. We cannot predict with any certainty the various market conditions affecting real estate investments that will exist at any particular time in the future. Due to the uncertainty of market conditions that may affect the future disposition of our properties, we cannot assure you that we will be able to sell our properties at a profit in the future. Accordingly, the extent to which you will receive cash distributions and realize potential appreciation on our real estate investments will be dependent upon fluctuating market conditions.

If we set aside insufficient working capital reserves, we may be required to defer necessary property improvements.

If we do not estimate enough reserves for working capital to supply needed funds for capital improvements throughout the life of the investment in a property, we may be required to defer necessary improvements to the property that may cause the property to suffer from a greater risk of obsolescence or a decline in value, or a greater risk of decreased cash flow as a result of fewer potential tenants being attracted to the property. If this happens, we may not be able to maintain projected rental rates for affected properties, and our results of operations may be negatively impacted.

The success of our joint venture activity depends upon our ability to work effectively with financially sound partners.

We are likely to enter into joint ventures with other Wells programs as well as third parties for the acquisition, development or improvement of properties. We may also purchase and develop properties in joint ventures or in partnerships, co-tenancies or other co-ownership arrangements with the sellers of the properties, affiliates of the sellers, developers or other persons. Such investments may involve risks not otherwise present with other methods of investment in real estate, including, for example:

the possibility that our co-venturer, co-tenant or partner in an investment might become bankrupt;

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that such co-venturer, co-tenant or partner may at any time have economic or business interests or goals which are or which become inconsistent with our business interests or goals; or

that such co-venturer, co-tenant or partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives.

Actions by such a co-venturer, co-tenant or partner might have the result of subjecting the property to liabilities in excess of those contemplated and may have the effect of reducing your returns.

The costs of compliance with environmental laws and other governmental laws and regulations may adversely affect our income and the cash available for any distributions.

All real property and the operations conducted on real property are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. These laws and regulations generally govern wastewater discharges, air emissions, the operation and removal of underground and above-ground storage tanks, the use, storage, treatment, transportation and disposal of solid and hazardous materials, and the remediation of contamination associated with disposals. Some of these laws and regulations may impose joint and several liability on tenants, owners or operators for the costs of investigation or remediation of contaminated properties, regardless of fault or the legality of the original disposal. In addition, the presence of these substances, or the failure to properly remediate these substances, may adversely affect our ability to sell or rent such property or to use the property as collateral for future borrowing.

Some of these laws and regulations have been amended so as to require compliance with new or more stringent standards as of future dates. Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require material expenditures by us. We cannot assure you that future laws, ordinances or regulations will not impose any material environmental liability, or that the current environmental condition of our properties will not be affected by the operations of the tenants, by the existing condition of the land, by operations in the vicinity of the properties, such as the presence of underground storage tanks, or by the activities of unrelated third parties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations that we may be required to comply with, and which may subject us to liability in the form of fines or damages for noncompliance.

Discovery of previously undetected environmentally hazardous conditions may adversely affect our operating results.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on, under or in such property. The costs of removal or remediation could be substantial. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles could be used to impose liability for release of and exposure to hazardous substances, including asbestos-containing materials into the air, and third parties may seek recovery from owners or operators of real properties for personal injury or property damage associated with exposure to released hazardous substances. The cost of defending against claims of liability, of compliance with environmental regulatory requirements, of remediating any contaminated

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property, or of paying personal injury claims could materially adversely affect our business, assets or results of operations and, consequently, amounts available for distribution to you.

If we sell properties by providing financing to purchasers, we will bear the risk of default by the purchaser.

If we decide to sell any of our properties, we intend to use our best efforts to sell them for cash. However, in some instances we may sell our properties by providing financing to purchasers. When we provide financing to purchasers, we will bear the risk of default by the purchaser and will be subject to remedies provided by law, which could negatively impact our cash dividends to stockholders. There are no limitations or restrictions on our ability to take purchase money obligations. We may, therefore, take a purchase money obligation secured by a mortgage as part payment for the purchase price. The terms of payment to us generally will be affected by custom in the area where the property being sold is located and then-prevailing economic conditions. If we receive promissory notes or other property in lieu of cash from property sales, the distribution of the proceeds of sales to our stockholders, or their reinvestment in other assets, will be delayed until the promissory notes or other property are actually paid, sold, refinanced or otherwise disposed of. In some cases, we may receive initial down payments in cash and other property in the year of sale in an amount less than the selling price and subsequent payments will be spread over a number of years. If any purchaser defaults under a financing arrangement with us, it could negatively impact our ability to pay cash dividends to our stockholders.

Risks Associated with Debt Financing

We may incur mortgage indebtedness and other borrowings, which may increase our business risks.

We may, in some instances, acquire real properties by using either existing financing or borrowing new funds. In addition, we may incur mortgage debt by obtaining loans secured by some or all of our real properties to obtain funds to acquire additional real properties. We may also borrow funds if necessary to satisfy the requirement that we distribute to stockholders as dividends at least 90.0% of our annual REIT taxable income, or otherwise as is necessary or advisable to assure that we maintain our qualification as a REIT for federal income tax purposes.

We may incur mortgage debt on a particular real property, especially if we believe the property's projected cash flow is sufficient to service the mortgage debt. However, if there is a shortfall in cash flow, then the amount available for distributions to stockholders may be affected. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by a property may result in foreclosure actions initiated by lenders and our loss of the property securing the loan that is in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds. We may give full or partial guarantees to lenders of mortgage debt to the entities that own our properties. When we give a guaranty on behalf of an entity that owns one of our properties, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any mortgages contain cross-collateralization or cross-default provisions, there is a risk that more than one real property may be affected by a default. If any of our properties are foreclosed upon due to a default, our ability to pay cash distributions to our stockholders will be adversely affected.

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If mortgage debt is unavailable at reasonable rates, we may not be able to finance the properties, which could reduce the number of properties we can acquire and the amount of cash distributions we can make.

If we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the loans come due, or of being unable to refinance on favorable terms. If interest rates are higher when the properties are refinanced, we may not be able to finance the properties and our income could be reduced. If this occurs, it would reduce cash available for distribution to our stockholders, and it may prevent us from raising capital by issuing more stock or prevent us from borrowing more money.

Lenders may require us to enter into restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders.

In connection with obtaining certain financing, a lender could impose restrictions on us that affect our ability to incur additional debt and our distribution and operating policies. Loan documents we enter into may contain customary negative covenants that may limit our ability to further mortgage the property, to discontinue insurance coverage, replace Wells Capital as our advisor or impose other limitations. Any such restriction or limitation may have an adverse effect on our operations.

Increases in interest rates could increase the amount of our debt payments and adversely affect our ability to pay dividends to our stockholders.

We expect that in the future we will incur indebtedness that bears interest at variable rates. Accordingly, increases in interest rates would increase our interest costs, which could have a material adverse effect on our operating cash flow and our ability to pay dividends to you. In addition, if we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments in properties at times which may not permit realization of the maximum return on such investments.

Section 1031 Exchange Program Risks

We may have increased exposure to liabilities from litigation as a result of our participation in the Section 1031 Exchange Program.

Wells Development Corporation, an affiliate of Wells Capital, our advisor, is forming a series of single member limited liability companies (each of which is referred to in this prospectus as Wells Exchange) for the purpose of facilitating the acquisition of real estate properties to be owned in co-tenancy arrangements with persons (1031 Participants) who are looking to invest proceeds from a sale of real estate to qualify for like-kind exchange treatment under Section 1031 of the Internal Revenue Code (Section 1031 Exchange Program). There will be significant tax and securities disclosure risks associated with the private placement offerings of co-tenancy interests by Wells Exchange to 1031 Participants. For example, in the event that the Internal Revenue Service conducts an audit of the purchasers of co-tenancy interests and successfully challenges the qualification of the transaction as a like-kind exchange under Section 1031 of the Internal Revenue Code, even though it is anticipated that this tax risk will be fully disclosed to investors, purchasers of co-tenancy interests may file a lawsuit against Wells Exchange and its sponsors. We may be named in or otherwise required to defend against lawsuits brought by 1031 Participants. Any amounts we are required to expend for any such litigation claims may reduce the amount of funds available for distribution to our stockholders. In addition, disclosure of any such litigation may adversely affect our ability to raise additional capital in the future through the sale of stock.

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We will be subject to risks associated with co-tenancy arrangements that are not otherwise present in a real estate investment.

At the closing of each property Wells Exchange acquires pursuant to the Section 1031 Exchange Program, we anticipate that Wells OP II will enter into a contractual arrangement providing that, in the event that Wells Exchange is unable to sell all of the co-tenancy interests in that particular property by the completion of its private placement offering, Wells OP II will purchase, at Wells Exchange's cost, any co-tenancy interests remaining unsold. Accordingly, in the event that Wells Exchange is unable to sell all co-tenancy interests in one or more of its properties, Wells OP II will be required to purchase the unsold co-tenancy interests in such property or properties and, thus, will be subject to the risks of ownership of properties in a co-tenancy arrangement with unrelated third parties.

Ownership of co-tenancy interests involves risks not otherwise present with an investment in real estate such as the following:

the risk that a co-tenant may at any time have economic or business interests or goals that are inconsistent with our business interests or goals;

the risk that a co-tenant may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives; or

the possibility that a co-tenant might become insolvent or bankrupt, which may be an event of default under mortgage loan financing documents or allow the bankruptcy court to reject the tenants in common agreement or management agreement entered into by the co-tenants owning interests in the property.

Actions by a co-tenant may subject the property to liabilities in excess of those contemplated and may have the effect of reducing your returns.

In the event that our interests become adverse to those of the other co-tenants, we will not have the contractual right to purchase the co-tenancy interests from the other co-tenants. Even if we are given the opportunity to purchase such co-tenancy interests in the future, we cannot guarantee that we will have sufficient funds available at the time to purchase co-tenancy interests from the 1031 Participants.

We might want to sell our co-tenancy interests in a given property at a time when the other co-tenants in such property do not desire to sell their interests. Therefore, we may not be able to sell our interest in a property at the time we would like to sell. In addition, we anticipate that it will be much more difficult to find a willing buyer for our co-tenancy interests in a property than it would be to find a buyer for a property we owned outright.

Our participation in the Section 1031 Exchange Program may limit our ability to borrow funds in the future.

Institutional lenders may view our obligations under agreements to acquire unsold co-tenancy interests in properties as a contingent liability against our cash or other assets, which may limit our ability to borrow funds in the future. Further, such obligations may be viewed by our lenders in such a manner as to limit our ability to borrow funds based on regulatory restrictions on lenders limiting the amount of loans they can make to any one borrower.

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Federal Income Tax Risks

Failure to qualify as a REIT would adversely affect our operations and our ability to make distributions.

Alston & Bird LLP, our legal counsel, has rendered its opinion that we will qualify as a REIT, based upon our representations as to the manner in which we are and will be owned, invest in assets and operate, among other things. However, our qualification as a REIT will depend upon our ability to meet, through investments, actual operating results, distributions and satisfaction of specific stockholder rules, the various tests imposed by the Internal Revenue Code. Alston & Bird LLP will not review these operating results or compliance with the qualification standards on an ongoing basis. This means that we cannot assure you that we will satisfy the REIT requirements in the future. Also, this opinion represents Alston & Bird LLP's legal judgment based on the law in effect as of the date of this prospectus and is not binding on the Internal Revenue Service or the courts, and could be subject to modification or withdrawal based on future legislative, judicial or administrative changes to the federal income tax laws, any of which could be applied retroactively.

If we fail to qualify as a REIT for any taxable year, we will be subject to federal income tax on our taxable income at corporate rates. In addition, we would generally be disqualified from treatment as a REIT for the four taxable years following the year of losing our REIT status. Losing our REIT status would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability. In addition, distributions to stockholders would no longer qualify for the distributions paid deduction, and we would no longer be required to make distributions. If this occurs, we might be required to borrow funds or liquidate some investments in order to pay the applicable tax.

Certain fees paid to Wells OP II may affect our REIT status.

In connection with any Section 1031 Exchange Transactions, Wells OP II would enter into a number of contractual arrangements with Wells Exchange that will, in effect, guarantee the sale of the co-tenancy interests being offered by Wells Exchange. In consideration for entering into these agreements, Wells OP II will be paid fees which could be characterized by the Internal Revenue Service as non-qualifying income for purposes of satisfying the income tests required for REIT qualification. If this fee income were, in fact, treated as non-qualifying, and if the aggregate of such fee income and any other non-qualifying income in any taxable year ever exceeded 5.0% of our gross revenues for such year, we could lose our REIT status for that taxable year and the four ensuing taxable years. Our failure to qualify as a REIT would adversely affect your return on your investment.

Recharacterization of the Section 1031 Exchange Transactions may result in taxation of income from a prohibited transaction, which would diminish our cash distributions to our stockholders.

In the event that the Internal Revenue Service were to recharacterize the Section 1031 Exchange Transactions such that Wells OP II, rather than Wells Exchange, is treated as the bona fide owner, for tax purposes, of properties acquired and resold by Wells Exchange in connection with the Section 1031 Exchange Transactions, such characterization could result in the fees paid to Wells OP II by Wells Exchange as being deemed income from a prohibited transaction, in which event the fee income paid to us in connection with the Section 1031 Exchange Transactions would be subject to a 100.0% tax. If this occurs, our ability to pay cash distributions to our stockholders will be adversely affected.

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You may have current tax liability on distributions you elect to reinvest in our common stock.

If you participate in our dividend reinvestment plan, you will be deemed to have received, and for income tax purposes will be taxed on, the amount reinvested in common stock. As a result, unless you are a tax-exempt entity, you may have to use funds from other sources to pay your tax liability on the value of the common stock received.

If Wells OP II fails to maintain its status as a partnership, its income may be subject to taxation, which would reduce cash available for distribution to our stockholders.

We intend to maintain the status of Wells OP II as a partnership for federal income tax purposes. However, if the Internal Revenue Service were to successfully challenge the status of the operating partnership as a partnership, it would be taxable as a corporation. In such event, this would reduce the amount of distributions that the operating partnership could make to us. This would also result in our losing REIT status, and becoming subject to a corporate level tax on our own income. This would substantially reduce our cash available to pay distributions and the return on your investment. In addition, if any of the partnerships or limited liability companies through which Wells OP II owns its properties, in whole or in part, loses its characterization as a partnership for federal income tax purposes, it would be subject to taxation as a corporation, thereby reducing distributions to the operating partnership. Such a recharacterization of an underlying property owner could also threaten our ability to maintain REIT status.

In certain circumstances, we may be subject to federal and state income taxes as a REIT, which would reduce our cash available for distribution to our stockholders.

Even if we qualify and maintain our status as a REIT, we may be subject to federal income taxes and related state taxes. For example, if we have net income from a prohibited transaction, such income will be subject to a 100.0% tax. We may not be able to make sufficient distributions to avoid excise taxes applicable to REITs. We may also decide to retain income we earn from the sale or other disposition of our property and pay income tax directly on such income. In that event, our stockholders would be treated as if they earned that income and paid the tax on it directly. However, stockholders that are tax-exempt, such as charities or qualified pension plans, would have no benefit from their deemed payment of such tax liability. We may also be subject to state and local taxes on our income or property, either directly or at the level of the operating partnership or at the level of the other companies through which we indirectly own our assets. Any federal or state taxes paid by us will reduce our cash available for distribution to our stockholders.

Legislative or regulatory action tax changes could adversely affect investors.

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations may take effect retroactively and could adversely affect the taxation of us or you as a stockholder, and, therefore could have an adverse effect on an investment in our common stock or on the market value or the resale potential of our properties. On May 23, 2003, Congress passed the Jobs and Growth Tax Relief Reconciliation Act of 2003, which decreases the tax rate on most dividends paid by corporations to individual investors to a maximum of 15% from current rates, and such rates are retroactive to the beginning of January 2003. REIT dividends, with limited exceptions, will not benefit from the rate reduction, because a REIT's income generally is not subject to corporate level tax. As such, this legislation could cause shares in non-REIT corporations to be a more attractive investment to individual investors than shares in REITs, and could have an adverse effect on the value of our common stock. You are urged to consult with your own tax advisor with respect to the impact of the Jobs and Growth Tax Relief Reconciliation Act of 2003 and

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any other relevant legislation on your investment in our common stock and the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our common stock.

Retirement Plan Risks

There are special considerations that apply to pension or profit sharing trusts or IRAs investing in shares.

If you are investing the assets of a pension, profit sharing, 401(k), Keogh or other qualified retirement plan or the assets of an IRA in our common stock, you should satisfy yourself that:

your investment is consistent with your fiduciary obligations under ERISA and the Internal Revenue Code;

your investment is made in accordance with the documents and instruments governing your plan or IRA, including your plan's investment policy;

your investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA and other applicable provisions of ERISA and the Internal Revenue Code;

your investment will not impair the liquidity of the plan or IRA;

your investment will not produce unrelated business taxable income for the plan or IRA;

you will be able to value the assets of the plan annually in accordance with ERISA requirements and applicable provisions of the plan or IRA; and

your investment will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the information in this prospectus may contain forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects. You can generally identify forward-looking statements by our use of forward-looking terminology such as *may*, *will*, *expect*, *intend*, *anticipate*, *estimate*, *believe*, *continue* or other similar words. You should not rely on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control.

These forward-looking statements are subject to various risks and uncertainties, including those discussed above under *Risk Factors*, that could cause our actual results to differ materially from those projected in any forward-looking statement we make. We do not undertake to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

SUITABILITY STANDARDS AND MINIMUM PURCHASE REQUIREMENTS

Suitability Standards

The shares we are offering are suitable only as a long-term investment for persons of adequate financial means. There is no public market for the shares, which means that you will have difficulty selling your shares. You should not buy these shares if you need to sell them in the short term. In consideration of these factors, we have established suitability standards for initial stockholders and subsequent transferees. These suitability standards require that a purchaser of shares have either:

a net worth of at least \$150,000; or

gross annual income of at least \$45,000 and a net worth of at least \$45,000.

Several states have established suitability standards different from those we have established. Shares will be sold only to investors in these states who meet the special suitability standards set forth below.

Iowa, Massachusetts, Michigan, Missouri and Tennessee Investors must have either (1) a net worth of at least \$225,000, or (2) gross annual income of at least \$60,000 and a net worth of at least \$60,000.

Maine Investors must have either (1) a net worth of at least \$200,000, or (2) gross annual income of at least \$50,000 and a net worth of at least \$50,000.

Iowa, Missouri, Ohio and Pennsylvania In addition to our suitability requirements, investors must have a net worth of at least 10 times their investment in us.

Because the minimum offering of our common stock is less than \$600,000,000, Pennsylvania investors are cautioned to evaluate carefully our ability to fully accomplish our stated objectives and to inquire as to the current dollar volume of our subscription proceeds.

For purposes of determining suitability of an investor, net worth in all cases should be calculated excluding the value of an investor's home, furnishings and automobiles. In the case of sales to fiduciary accounts, these suitability standards must be met by the fiduciary account, by the person who directly or indirectly supplied the funds for the purchase of the shares or by the beneficiary of the account.

These suitability standards are intended to help ensure that, given the long-term nature of an investment in our shares, our investment objectives and the relative illiquidity of our shares, our shares are an appropriate investment for those of you desiring to become stockholders. Each participating broker-dealer must make every reasonable effort to determine that the purchase of shares is a suitable and

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appropriate investment for each stockholder based on information provided by the stockholder in the Subscription Agreement or otherwise. Each participating broker-dealer is required to maintain records of the information used to determine that an investment in shares is suitable and appropriate for each stockholder for a period of six years.

Minimum Purchase Requirements

The minimum purchase is 100 shares (\$1,000), except in certain states as described below. In order to satisfy the minimum purchase requirement for retirement plans, unless otherwise prohibited by state law, a husband and wife may jointly contribute funds from their separate IRAs, provided that each such contribution is made in increments of \$100. You should note that an investment in our shares will not, in itself, create a retirement plan and that, in order to create a retirement plan, you must comply with all applicable provisions of the Internal Revenue Code.

The minimum purchase for Maine, New York and North Carolina residents is 250 shares (\$2,500), except for IRAs which must purchase a minimum of 100 shares (\$1,000). The minimum purchase for Minnesota residents is 250 shares (\$2,500), except for IRAs and other qualified retirement plans which must purchase a minimum of 200 shares (\$2,000).

Except in the states of Maine, Minnesota, Nebraska and Washington, if you have purchased units or shares in other Wells-sponsored public programs, you may purchase less than the minimum number of shares set forth above, but in no event less than 2.5 shares (\$25). If you have satisfied the applicable minimum purchase requirement, any additional purchase must be in increments of at least 2.5 shares (\$25), except for (1) additional purchases made by residents of Maine, Minnesota, Nebraska and Washington who must still meet the applicable minimum purchase requirement set forth above, and (2) additional purchases of shares pursuant to our dividend reinvestment plan or reinvestment plans of other Wells-sponsored public real estate programs.

You may not transfer fewer shares than the minimum purchase requirement. In addition, you may not transfer, fractionalize or subdivide your shares so as to retain less than the number of shares required for the minimum purchase.

ESTIMATED USE OF PROCEEDS

The following tables set forth information about how we intend to use the proceeds raised in this offering assuming that we sell 300,000,000 shares and the maximum of 600,000,000 shares, respectively, of common stock for \$10 per share. Many of the figures set forth below represent management's best estimate since they cannot be precisely calculated at this time. We expect that at least 85% of the money you invest will be used generally to buy real estate, while the remainder will be used to pay expenses and fees, including the payment of fees to Wells Capital, our advisor, and Wells Investment Securities, our Dealer Manager.

<u>300,000,000 Shares</u>		<u>600,000,000 Shares</u>	
<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>

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Gross Offering Proceeds	\$ 3,000,000,000	100.0%	\$ 6,000,000,000	100.0%
Less Public Offering Expenses:				
Selling Commissions and Dealer Manager Fee(1)	\$ 285,000,000	9.5%	\$ 570,000,000	9.5%
Organization and Offering Expenses(2)	\$ 60,000,000	2.0%	\$ 60,000,000	1.0%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Amount Available for Investment(3)	\$ 2,655,000,000	88.5%	\$ 5,370,000,000	89.5%

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Acquisition and Development:				
Acquisition and Advisory Fees (4)	\$ 90,000,000	3.0%	\$ 180,000,000	3.0%
Acquisition Expenses (5)	\$ 15,000,000	0.5%	\$ 30,000,000	0.5%
Initial Working Capital Reserve (6)	(8)		(8)	
Amount Invested in Properties (3)(7)	\$ 2,550,000,000	85.0%	\$ 5,160,000,000	86.0%

(Footnotes to Estimated Use of Proceeds)

- Includes selling commissions equal to 7.0% of aggregate gross offering proceeds and a dealer manager fee equal to 2.5% of aggregate gross offering proceeds, both of which are payable to the Dealer Manager, an affiliate of our advisor. The Dealer Manager will reallocate selling commissions of 7.0% of gross offering proceeds to other broker-dealers participating in this offering (Participating Dealers) attributable to the amount of shares sold by them. In addition, the Dealer Manager may reallocate a portion of its dealer manager fee to Participating Dealers in the aggregate amount of up to 1.5% of gross offering proceeds to be paid to such Participating Dealers as marketing fees, to reimburse representatives of such Participating Dealers the costs and expenses of attending our educational conferences and seminars or to defray other distribution-related expenses. The selling commissions and, in some cases, the dealer manager fee will not be charged with regard to shares sold to or for the account of certain categories of purchasers. See Plan of Distribution. The reduced commissions will lower the price paid for the shares and will, therefore, not affect the amount of proceeds available to us for investment in properties.
- Organization and offering expenses consist of reimbursement of actual legal, accounting, printing and other accountable offering expenses, other than selling commissions and the dealer manager fee, including amounts to reimburse Wells Capital, our advisor, for all marketing related costs and expenses, including, but not limited to, salaries and direct expenses of our advisor's employees while engaged in registering and marketing the shares and other marketing and organization costs, technology costs and expenses attributable to the offering, costs and expenses of conducting our educational conferences and seminars, payment or reimbursement of bona fide due diligence expenses, and costs and expenses we incur for attending retail seminars conducted by broker-dealers. Wells Capital and its affiliates will be responsible for the payment of organization and offering expenses, other than selling commissions and the dealer manager fee, to the extent they exceed 2.0% of aggregate gross offering proceeds from all of our offerings without recourse against or reimbursement by us. Notwithstanding the above, in no event shall organization and offering expenses, including selling commissions, the dealer manager fee and all other underwriting compensation, exceed 15% of gross offering proceeds.
- Until required in connection with the acquisition and development of properties, substantially all of the net proceeds of the offering and, thereafter, our working capital reserves, may be invested in short-term, highly-liquid investments including government obligations, bank certificates of deposit, short-term debt obligations and interest-bearing accounts or other authorized investments as determined by our board of directors.
- Acquisition and advisory fees are defined generally as fees and commissions paid by any party to any person in connection with the purchase, development or construction of properties. We will pay Wells Capital, as our advisor, acquisition and advisory fees up to a maximum amount of 3.0% of gross offering proceeds in connection with the acquisition of the real estate properties. Acquisition and advisory fees do not include acquisition expenses.
- Acquisition expenses include legal fees and expenses, travel expenses, costs of appraisals, nonrefundable option payments on property not acquired, accounting fees and expenses, title

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insurance premiums and other closing costs and miscellaneous expenses relating to the selection, acquisition and development of real estate properties. We intend to pay Wells Capital, our advisor, acquisition expenses up to a maximum of 0.5% of gross offering proceeds as reimbursement for the payment of such expenses.

6. Because we expect that the vast majority of leases for the properties acquired by us will provide for tenant reimbursement of operating expenses, we do not anticipate that a permanent reserve for maintenance and repairs of real estate properties will be established. However, to the extent that we have insufficient funds for such purposes, we may establish reserves from gross offering proceeds, out of cash flow generated by operating properties or out of nonliquidating net sale proceeds, defined generally to mean the net cash proceeds received by us from any sale or exchange of properties.
7. Includes amounts anticipated to be invested in properties net of fees and expenses. We estimate that at least 85% of the proceeds received from the sale of shares will be used to acquire properties.

MANAGEMENT

Board of Directors

We operate under the direction of our board of directors. The board is responsible for the management and control of our affairs. The board has retained Wells Capital to manage our day-to-day affairs and the acquisition and disposition of our investments, subject to the board's supervision. Because of the numerous conflicts of interest created by the relationships among us, Wells Capital and various affiliates, many of the responsibilities of the board have been delegated to a committee comprised of all of our independent directors. See [Conflicts of Interest](#).

Our charter and bylaws provide that the number of our directors may be established by a majority of the entire board of directors but may not be fewer than three nor more than 15. Our charter provides that a majority of the directors must be independent directors prior to commencement of this offering. We expect to appoint seven independent directors to our board prior to commencement of this offering, which will give us a total of nine directors. An independent director is a person who is not one of our officers or employees or an officer or employee of Wells Capital or its affiliates and has not otherwise been associated with such entities for the previous two years. Serving as a director of, or having an ownership interest in, another Wells-sponsored program will not, by itself, preclude independent-director status.

Each director will serve until the next annual meeting of stockholders or until his successor has been duly elected and qualified. Although the number of directors may be increased or decreased, a decrease shall not have the effect of shortening the term of any incumbent director. Any director may resign at any time and may be removed with or without cause by the stockholders upon the affirmative vote of at least a majority of all the votes entitled to be cast at a meeting called for the purpose of the proposed removal. The notice of the meeting shall indicate that the purpose, or one of the purposes, of the meeting is to determine if the director shall be removed.

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Unless filled by a vote of the stockholders as permitted by the Maryland General Corporation Law, a vacancy created by an increase in the number of directors or the death, resignation, removal, adjudicated incompetence or other incapacity of a director shall be filled by a vote of a majority of the remaining directors. As provided in our charter, nominations of individuals to fill the vacancy of a board seat previously filled by an independent director will be made by the remaining independent directors.

Our directors and officers are not required to devote all of their time to our business and are only required to devote the time to our affairs as their duties may require. Our directors will meet quarterly or more frequently if necessary in order to discharge their duties as directors. We do not expect that our directors will be required to devote a substantial portion of their time in discharging such duties. Consequently, in the exercise of their duties, our directors will be relying heavily on Wells Capital. Our board is empowered to fix the compensation of all officers that it selects and may pay compensation to directors for services rendered to us in any other capacity.

Our general investment and borrowing policies are set forth in this prospectus. Our directors may establish further written policies on investments and borrowings and shall monitor our administrative procedures, investment operations and performance to ensure that the policies are fulfilled and are in the best interest of the stockholders. We will follow the policies on investments and borrowings set forth in this prospectus unless and until they are modified by our directors.

Committees of the Board of Directors

Many of the powers of the board of directors may be delegated to a committee. Our charter requires that each committee consist of at least a majority of independent directors.

Audit Committee

The audit committee of the board of directors will consist of three independent directors. The audit committee selects the independent public accountants to audit our annual financial statements, reviews with the independent public accountants the plans and results of the audit engagement, approves the audit and non-audit services provided by the independent public accountants, reviews the independence of the independent public accountants, considers the range of audit and non-audit fees and reviews the adequacy of our internal accounting controls.

Compensation Committee

The compensation committee of the board of directors will consist of all seven independent directors. The primary function of the compensation committee will be to approve the compensation of our officers, to administer the granting of stock options to selected employees of Wells Capital and Wells Management based upon recommendations from Wells Capital, and to set the terms and conditions of such options in accordance with the Stock Option Plan.

Advisory Committees

The board of directors may establish various advisory committees on which certain members of the board would sit to assist Wells Capital and its affiliates in the following areas which have a direct impact on our operations:

Asset management;

Finance and planning; and

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Shareholder relations, communications and development.

Conflicts Committee

In order to reduce or eliminate certain potential conflicts of interest, our charter creates a conflicts committee of our board of directors comprised of all of our independent directors. (Serving on the board of, or owning an interest in, another Wells-sponsored program will not, by itself, preclude a director from serving on the conflicts committee.) The conflicts committee, which is authorized to retain its own legal and financial advisors, is empowered to act on any matter permitted under Maryland law provided that it first determines that the matter at issue is such that the exercise of independent judgment by Wells Capital affiliates could reasonably be compromised. Those conflict-of-interest matters that cannot be delegated to a committee under Maryland law must be acted upon by both the board of directors and the conflicts committee.

To address conflicts in transactions involving us and another Wells-sponsored program, our charter also creates a subcommittee of the conflicts committee comprised of all directors on the conflicts committee that are unaffiliated with another Wells-sponsored program, e.g., Wells REIT I. The conflicts subcommittee is empowered to act on any matter permitted by Maryland law provided its minutes reflect that it first determined that the matter at issue was such that the exercise of independent judgment by both the affiliates of Wells Capital and the affiliates of another Wells-sponsored program could reasonably be compromised. (See Conflicts of Interest Certain Conflict Resolution Procedures.)

Executive Officers and Directors

We have provided below certain information about our executive officers and directors.

<i><u>Name</u></i>	<i><u>Positions</u></i>	<i><u>Age</u></i>
Leo F. Wells, III	President and Director	59
Douglas P. Williams	Executive Vice President, Secretary, Treasurer and Director	52
Randall D. Fretz	Vice President	50

Leo F. Wells, III is our President and a director. He is also the President and a director of Wells REIT I and is the President, Treasurer and sole director of Wells Capital, our advisor. He is also the sole stockholder and sole director of Wells Real Estate Funds, Inc., the parent corporation of Wells Capital. Mr. Wells is President of Wells & Associates, Inc., a real estate brokerage and investment company formed in 1976 and incorporated in 1978, for which he serves as principal broker. He is also the President, Treasurer and sole director of:

Wells Management Company, Inc., our Property Manager;

Wells Investment Securities, Inc., our Dealer Manager;

Wells Advisors, Inc., a company he organized in 1991 to act as a non-bank custodian for IRAs; and

Wells Development Corporation, a company he organized in 1997 to develop real properties.

Mr. Wells was a real estate salesman and property manager from 1970 to 1973 for Roy D. Warren & Company, an Atlanta-based real estate company, and he was associated from 1973 to 1976 with Sax Gaskin Real Estate Company, during which time he became a Life Member of the Atlanta Board of Realtors Million Dollar Club. From 1980 to February 1985 he served as Vice President of Hill-Johnson, Inc., a Georgia corporation engaged in the construction business. Mr. Wells holds a Bachelor of Business

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Administration degree in economics from the University of Georgia. Mr. Wells is a member of the International Association for Financial Planning and a registered NASD principal.

Mr. Wells has over 30 years of experience in real estate sales, management and brokerage services. In addition to being the President and a director of Wells REIT I, he is currently a co-general partner in a total of 27 real estate limited partnerships formed for the purpose of acquiring, developing and operating office buildings and other commercial properties. As of December 31, 2002, these 27 real estate limited partnerships represented investments totaling approximately \$347,000,000 from approximately 28,300 investors.

On June 6, 2003, the enforcement division of the NASD informed Wells Investment Securities and Mr. Wells that the NASD has made a determination to institute disciplinary proceedings against both Wells Investment Securities and Mr. Wells for alleged violations of various NASD Conduct Rules entirely related to providing non-cash compensation of more than \$100 to associated persons of NASD member firms in connection with their attendance at the annual educational and due diligence conferences sponsored by Wells Investment Securities in 2001 and 2002. See **Affiliated Companies Dealer Manager** below.

Douglas P. Williams is our Executive Vice President, Secretary and Treasurer and is a director. He is also Executive Vice President, Secretary and Treasurer and a director of Wells REIT I, a Senior Vice President of Wells Capital, our advisor, and is also a Vice President of:

Wells Investment Securities, Inc., our Dealer Manager;

Wells Real Estate Funds, Inc.; and

Wells Advisors, Inc.

Mr. Williams previously served as Vice President, Controller of OneSource, Inc., a leading supplier of janitorial and landscape services, from 1996 to 1999 where he was responsible for corporate-wide accounting activities and financial analysis. Mr. Williams was employed by ECC International Inc., a supplier to the paper industry and to the paint, rubber and plastic industries, from 1982 to 1995. While at ECC, Mr. Williams served in a number of key accounting positions, including: Corporate Accounting Manager, U.S. Operations; Division Controller, Americas Region; and Corporate Controller, America/Pacific Division. Prior to joining ECC and for one year after leaving ECC, Mr. Williams was employed by Lithonia Lighting, a manufacturer of lighting fixtures, as a Cost and General Accounting Manager and Director of Planning and Control. Mr. Williams started his professional career as an auditor for KPMG Peat Marwick LLP.

Mr. Williams is a member of the American Institute of Certified Public Accountants and the Georgia Society of Certified Public Accountants and is licensed with the NASD as a financial and operations principal. Mr. Williams received a Bachelor of Arts degree from Dartmouth College and a Masters of Business Administration degree from the Amos Tuck School of Graduate Business Administration at Dartmouth College.

Randall D. Fretz is our Vice President and is a Senior Vice President of Wells Capital. He is also the Chief of Staff and a Vice President of Wells Real Estate Funds, Inc. and a Vice President of Wells REIT I. Mr. Fretz is primarily responsible for corporate strategy and planning and advising and coordinating the executive officers of Wells Capital on corporate matters and special projects. Prior to joining Wells Capital in 2002, Mr. Fretz served for seven years as President of US & Canada operations for Larson-Juhl, a world leader in custom art and picture-framing home decor. Mr. Fretz was previously a Division Director at Bausch & Lomb, a manufacturer of optical equipment and

products, and also held various senior positions at Tandem International and Lever Brothers. Mr. Fretz holds a bachelor degree

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in each of Sociology and Physical Education from McMaster University in Hamilton, Ontario. He also earned an MBA from the Ivey School of Business in London, Ontario.

Compensation of Directors

We intend to pay each of our independent directors \$3,000 per regularly scheduled quarterly board meeting attended, \$1,000 per regularly scheduled advisory committee meeting attended and \$250 per special board meeting attended whether held in person or by telephone conference. In addition, we have reserved 100,000 shares of common stock for future issuance upon the exercise of stock options granted to the independent directors pursuant to our Independent Director Stock Option Plan. All directors will receive reimbursement of reasonable out-of-pocket expenses incurred in connection with attendance at meetings of the board of directors. If a director also is one of our officers, we will not pay separate compensation for services rendered as a director.

Independent Director Stock Option Plan

Our sole stockholder intends to approve the Independent Director Stock Option Plan prior to commencement of this offering. We expect to issue non-qualified stock options to purchase 2,500 shares, which we refer to as Initial Options, to each independent director pursuant to this Plan. In addition, we expect to issue options to purchase 1,000 shares, which we refer to as Subsequent Options, to each independent director then in office on the date of each annual stockholders' meeting. We refer to the Initial Options and the Subsequent Options collectively referred as the Director Options. We may not grant Director Options at any time when the grant, along with grants to other independent directors, would exceed 10% of our issued and outstanding shares.

The exercise price for the Initial Options will be \$12.00 per share. The exercise price for the Subsequent Options will be the greater of (1) \$12.00 per share or (2) the fair market value of the shares on the date they are granted. Fair market value is defined generally to mean:

the average closing price for the five consecutive trading days ending on such date if the shares are traded on a national securities exchange or the Nasdaq Stock Market;

the average of the high bid and low asked prices if the shares are quoted in the over-the-counter-market;

the average sale price of the last 10 sales made by us pursuant to a public offering if there is a current public offering and no market for the shares;

the average purchase price of the last 10 purchases (or fewer if less than 10 purchases) under our share redemption program if there is no current public offering; or

the price per share under our dividend reinvestment plan if there are no purchases under the share redemption program.

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We have authorized and reserved a total of 100,000 shares for issuance under the Plan. If the number of outstanding shares is changed into a different number or kind of shares or securities through a reorganization or merger in which we are the surviving entity, or through a combination, recapitalization or otherwise, we will make an appropriate adjustment in the number and kind of shares that may be issued pursuant to exercise of the Director Options. We will also make a corresponding adjustment to the exercise price of the Director Options granted prior to any change. Any such adjustment, however, will not change the total payment, if any, applicable to the portion of the Director Options not exercised but

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will change only the exercise price for each share. To date, we have not issued any Director Options under this Plan.

Director Options shall lapse on the first to occur of (1) the tenth anniversary of the date we grant them, (2) the removal for cause of the independent director as a member of the board of directors, or (3) three months following the date the independent director ceases to be a director for any reason other than death or disability. Director Options may be exercised by payment of cash or through the delivery of common stock. Director Options are generally exercisable in the case of death or disability for a period of one year after death or the disabling event. No Director Option issued may be exercised if such exercise would jeopardize our status as a REIT under the Internal Revenue Code.

The independent directors may not sell, pledge, assign or transfer their options other than by will or the laws of descent or distribution.

The term of the Plan is 10 years. Upon our earlier dissolution or liquidation, upon our reorganization, merger or consolidation with one or more corporations as a result of which we are not the surviving corporation or upon sale of all or substantially all of our properties, the Plan will terminate, and any outstanding Director Options will terminate and be forfeited. The board of directors may provide in writing in connection with any such transaction for any or all of the following alternatives:

for the assumption by the successor corporation of the Director Options granted or the replacement of the Director Options with options covering the stock of the successor corporation, or a parent or subsidiary of such corporation, with appropriate adjustments as to the number and kind of shares and exercise prices;

for the continuance of the Plan and the Director Options by such successor corporation under the original terms; or

for the payment in cash or shares of common stock in lieu of and in complete satisfaction of such options.

Employee Stock Option Plan

Our sole stockholder intends to approve the Employee Stock Option Plan prior to commencement of this offering. Our Employee Stock Option Plan is designed to enable Wells Capital and Wells Management to obtain or retain the services of employees considered essential to our long range success and the success of Wells Capital and Wells Management by offering such employees an opportunity to participate in our growth through ownership of our common stock.

The compensation committee of the board of directors shall conduct the general administration of the Plan. The compensation committee is authorized to grant non-qualified stock options, which we refer to as Employee Options, to selected employees of Wells Capital and Wells Management based upon the recommendation of Wells Capital and subject to the absolute discretion of the compensation committee and applicable limitations of the Plan. The exercise price for the Employee Options shall be the greater of (1) \$11.00 per share, or (2) the fair market value of the shares on the date the option is granted. A total of 750,000 shares have been authorized and reserved for issuance under our Employee Stock Option Plan. To date, we have not issued any stock options under this Plan.

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The compensation committee shall set the term of the Employee Options in its discretion, although no Employee Option shall have a term greater than five years from the later of (1) the date our shares become listed on a national securities exchange, or (2) the date the Employee Option is granted. The employee receiving Employee Options shall agree to remain in employment with his or her employer for

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a period of one year after the Employee Option is granted. The compensation committee shall set the period during which the right to exercise an option vests in the holder of the option. No Employee Option issued may be exercised, however, if such exercise would jeopardize our status as a REIT under the Internal Revenue Code. In addition, no option may be sold, pledged, assigned or transferred by an employee in any manner other than by will or the laws of descent or distribution.

In the event that the compensation committee determines that any dividend or other distribution, recapitalization, stock split, reorganization, merger, liquidation, dissolution, or sale, transfer, exchange or other disposition of all or substantially all of our assets, or other similar corporate transaction or event, affects the shares such that an adjustment is determined by the compensation committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to an Employee Option, then the compensation committee shall, in such manner as it may deem equitable, adjust the number and kind of shares or the exercise price with respect to any option.

The term of the Plan is 10 years. Upon our earlier dissolution or liquidation, upon our reorganization, merger or consolidation with one or more corporations as a result of which we are not the surviving corporation or upon sale of all or substantially all of our properties, the Plan will terminate, and any outstanding Employee Options will terminate and be forfeited. The board of directors may provide in writing in connection with any such transaction for any or all of the following alternatives:

for the assumption by the successor corporation of the Employee Options granted or the replacement of the Employee Options with options covering the stock of the successor corporation, or a parent or subsidiary of such corporation, with appropriate adjustments as to the number and kind of shares and exercise prices;

for the continuance of the Plan and the Employee Options by such successor corporation under the original terms; or

for the payment in cash or shares of common stock in lieu of and in complete satisfaction of such options.

Limited Liability and Indemnification of Directors, Officers, Employees and Other Agents

Our charter limits the liability of our directors and officers to us or our stockholders for monetary damages to the fullest extent permitted under the current Maryland General Corporation Law, which permits exculpation so long as the director or officer was not deliberately dishonest and did not actually receive an improper benefit.

This exculpation provision in our charter does not reduce the exposure of our directors and officers to liability under federal or state securities laws, nor does it limit our stockholders' ability to obtain injunctive relief or other equitable remedies for a violation of a director's or an officer's duties to us or our stockholders, although equitable remedies may not be an effective remedy in some circumstances.

The Maryland General Corporation Law allows directors and officers to be indemnified against judgments, penalties, fines, settlements and expenses actually incurred in a proceeding unless the following can be established:

an act or omission of the director or officer was material to the cause of action adjudicated in the proceeding, and was committed in bad faith or was the result of active and deliberate dishonesty;

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the director or officer actually received an improper personal benefit in money, property or services; or

with respect to any criminal proceeding, the director or officer had reasonable cause to believe his act or omission was unlawful.

Notwithstanding the wide range of conduct for which a corporation may indemnify a director under Maryland law, our charter only indemnifies our directors or Wells Capital or its affiliates if all of the following conditions are met:

our directors, Wells Capital or its affiliates have determined, in good faith, that the course of conduct that caused the loss or liability was in our best interests;

our directors, Wells Capital or its affiliates were acting on our behalf or performing services for us;

in the case of independent directors, the liability or loss was not the result of gross negligence or willful misconduct by the party seeking indemnification;

in the case of the non-independent directors, Wells Capital or its affiliates, the liability or loss was not the result of negligence or misconduct by the party seeking indemnification; and

the indemnification is recoverable only out of our net assets and not from the stockholders.

The partnership agreement of Wells OP II, however, indemnifies our directors and officers and Wells Capital and its employees and affiliates to the maximum extent permitted by Delaware law.

The SEC takes the position that indemnification against liabilities arising under the Securities Act of 1933 is against public policy and unenforceable. Furthermore, our charter prohibits our indemnification of our directors, Wells Capital or its affiliates for liabilities arising from or out of a violation of state or federal securities laws, unless one or more of the following conditions are met:

there has been a succes;inherit;font-size:10pt;">

Houston, Texas (CHS Insurance Group)

Indianapolis, Indiana (CHS Insurance Group and CHS Hedging Inc.)

Kansas City, Missouri (CHS Hedging Inc.)

Kewanee, Illinois (CHS Insurance Group)

Wheat Milling

We own five milling facilities at the following locations, all of which are leased to Horizon Milling:

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Fairmount, North Dakota
Houston, Texas
Kenosha, Wisconsin
Mount Pocono, Pennsylvania
Rush City, Minnesota

Corporate Headquarters

We are headquartered in Inver Grove Heights, Minnesota. We own a 33-acre campus consisting of one main building with approximately 320,000 square feet of office space and two smaller buildings with approximately 13,400 and 9,000 square feet of space. We also have an office in Washington, D.C. which is leased.

Our internet address is www.chsinc.com.

ITEM 3. LEGAL PROCEEDINGS

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

Laurel

On August 30, 2012, we received from the EPA a request for information pursuant to Section 114 of the Clean Air Act. The information requested relates to operational information and design data for flares at our Laurel, Montana refinery for the period from January 1, 2006 to present. The information request could potentially result in an enforcement action by the EPA with respect to flare efficiency or other issues. We provided the requested information in December 2012 and are awaiting the EPA's response. As it is too early to determine the potential liability or extent of potential costs associated with any such action, we have not recorded a liability associated with this request. While the facts and circumstances of enforcement actions under the Clean Air Act relating to flares at refineries differ on a case-by-case basis, some refineries have incurred significant penalties and other costs in connection with such enforcement actions.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

We have approximately 77,100 members, of which approximately 1,100 are cooperative association members and approximately 76,000 are individual members. As a cooperative, we do not have any common stock that is traded.

On August 31, 2013, we had 12,272,003 shares of 8% Cumulative Redeemable Preferred Stock outstanding, which are listed on the NASDAQ under the symbol CHSCP. During September 2013, we issued 11,319,175 shares of Class B Preferred Stock, which are listed on the NASDAQ under the symbol CHSCO.

We have not sold any equity securities during the three years ended August 31, 2013 that were not registered under the Securities Act of 1933, as amended.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial information below has been derived from our consolidated financial statements for the years ended August 31. The selected consolidated financial information for August 31, 2013, 2012 and 2011, should be read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this filing.

Summary Consolidated Financial Data

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	2013	2012	2011	2010	2009
	(Dollars in thousands)				
Income Statement Data:					
Revenues	\$44,479,857	\$40,599,286	\$36,915,834	\$25,267,931	\$25,729,916
Cost of goods sold	42,706,205	38,588,143	35,512,988	24,397,410	24,849,901
Gross profit	1,773,652	2,011,143	1,402,846	870,521	880,015
Marketing, general and administrative	553,623	498,233	438,498	366,582	355,299
Operating earnings	1,220,029	1,512,910	964,348	503,939	524,716
(Gain) loss on investments	(182	) 5,465	(126,729	) (29,433	) 56,305
Interest, net	231,567	193,263	74,835	58,324	70,487
Equity income from investments	(97,350	) (102,389	) (131,414	) (108,787	) (105,754
Income before income taxes	1,085,994	1,416,571	1,147,656	583,835	503,678
Income taxes	89,666	80,852	86,628	48,438	63,304
Net income	996,328	1,335,719	1,061,028	535,397	440,374
Net income attributable to noncontrolling interests	3,942	75,091	99,673	33,238	58,967
Net income attributable to CHS Inc.	\$992,386	\$1,260,628	\$961,355	\$502,159	\$381,407
Balance Sheet Data (August 31):					
Working capital	\$3,125,407	\$2,848,462	\$2,776,492	\$1,603,994	\$1,626,352
Net property, plant and equipment	3,171,404	2,786,324	2,420,214	2,253,071	2,099,325
Total assets	13,504,270	13,645,024	12,465,317	8,881,087	7,994,921
Long-term debt, including current maturities	1,607,032	1,440,353	1,501,997	986,241	1,071,953
Total equities	5,152,747	4,473,323	4,265,320	3,604,451	3,333,164

The selected financial information below has been derived from our two business segments, and Corporate and Other, for the years ended August 31, 2013, 2012 and 2011. The intercompany revenues between segments were \$481.5 million, \$467.6 million and \$383.4 million for the fiscal years ended August 31, 2013, 2012 and 2011, respectively.

Prior year amounts in the following table have been adjusted to conform to our current segments.

Summary Financial Data By Business Segment

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	Energy			Ag		
	2013	2012	2011	2013	2012	2011
	(Dollars in thousands)					
Revenues	\$12,982,293	\$12,816,542	\$11,467,381	\$31,909,791	\$28,181,445	\$25,767,033
Cost of goods sold	11,846,458	11,514,463	10,694,687	31,341,453	27,544,040	25,204,301
Gross profit	1,135,835	1,302,079	772,694	568,338	637,405	562,732
Marketing, general and administrative	172,136	155,786	142,708	312,616	273,757	229,369
Operating earnings	963,699	1,146,293	629,986	255,722	363,648	333,363
Loss (gain) on investments	—	4,008	1,027	(27	) 1,049	(118,344)
Interest, net	148,366	122,302	5,829	71,597	57,915	57,438
Equity income from investments	(1,357)	(7,537)	(6,802)	(15,194)	(22,737)	(40,482)
Income before income taxes	\$816,690	\$1,027,520	\$629,932	\$199,346	\$327,421	\$434,751
Intersegment revenues	\$(481,465)	\$(467,583)	\$(383,389)			
Total identifiable assets	\$4,409,594	\$3,704,796		\$6,146,547	\$7,316,410	
				Corporate and Other		
	2013	2012	2011			
	(Dollars in thousands)					
Revenues	\$69,238	\$68,882	\$64,809			
Cost of goods sold	(241)	(2,777)	(2,611)			
Gross profit	69,479	71,659	67,420			
Marketing, general and administrative	68,871	68,690	66,421			
Operating earnings	608	2,969	999			
(Gain) loss on investments	(155)	408	(9,412)			
Interest, net	11,604	13,046	11,568			
Equity income from investments	(80,799)	(72,115)	(84,130)			
Income before income taxes	\$69,958	\$61,630	\$82,973			
Intersegment revenues						
Total identifiable assets	\$2,948,129	\$2,623,818				

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The following discussion of financial condition and results of operations should be read in conjunction with the accompanying audited financial statements and notes to such statements and the cautionary statement regarding forward-looking statements found in Part I, Item 1A of this Form 10-K. This discussion contains

forward-looking statements based on current expectations, assumptions, estimates and projections of our management. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, as more fully described in the cautionary statement and elsewhere in this Form 10-K.

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 (8% Preferred Stock) and our Class B Cumulative Redeemable Preferred Stock (Class B Preferred Stock).

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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.

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

We have aligned our 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.

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. In Corporate and Other, these investments principally include our 50% ownership in Ventura Foods and our 24% ownership in Horizon Milling and Horizon Milling, ULC.

Recent Events

In September 2013, we issued 11,319,175 shares of Class B Preferred Stock in a public offering. Net proceeds from the sale of our Class B Preferred Stock, after deducting the underwriting discount and offering expenses payable by us, were \$273.9 million. The net proceeds will be used for general corporate purposes, which may include funding our project to replace a coker at NCRA's McPherson, Kansas refinery which has a remaining expected cost of \$370.6 million, or partially funding our \$327.0 million expansion at NCRA's McPherson, Kansas refinery.

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CHS has a 24% interest in Horizon Milling, LLC and Horizon Milling, ULC, flour milling joint ventures with Cargill, which are included in Corporate and Other. On March 4, 2013, CHS 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, including the Horizon Milling, LLC and Horizon Milling, ULC assets and the assets leased by CHS to Horizon Milling, with CHS holding a 12% interest. Upon closing, Ardent Mills is expected to be financed with funds from third-party borrowings, which would not require credit support from the owners. The borrowings are anticipated to be no less than \$600 million with proceeds distributed to each owner in proportion to the ownership interests, adjusted for any deviations in specified working capital target amounts. The transaction is expected to close during fiscal 2014, subject to financing and certain other customary closing conditions. In connection with the closing, the parties will also enter into various ancillary and non-compete agreements, including, among other things, an agreement for CHS to supply Ardent Mills with certain wheat and durum products.

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 the feasibility of the project. We expect the study to be completed in calendar 2013.

Results of Operations

Comparison of the years ended August 31, 2013 and 2012

General. We recorded income before income taxes of \$1.1 billion in fiscal 2013 compared to \$1.4 billion in fiscal 2012, a decrease of \$330.6 million (23%). Operating results reflected decreased pretax earnings in our Energy and Ag segments, partially offset by increased pretax earnings in Corporate and Other.

Our Energy segment generated income before income taxes of \$816.7 million for the year ended August 31, 2013 compared to \$1.0 billion in fiscal 2012, representing a decrease of \$210.8 million (21%). The decrease in earnings is primarily from reduced margins on refined fuels at our Laurel, Montana refinery due to the shut down of the refinery for a major maintenance turnaround. We experienced decreased earnings in our propane business, while our renewable fuels marketing, lubricants, and transportation businesses experienced increased earnings during the year ended August 31, 2013 when compared to the previous year. We are subject to the Renewable Fuels 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 fuels 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. Since January 2013, the price of RINs has been extremely volatile. As a result, the purchase of RINs has had a negative impact on our refined fuels margins, and could have a future negative impact for which we are not able to estimate the amount at this time.

Our Ag segment generated income before income taxes of \$199.3 million for the year ended August 31, 2013 compared to \$327.4 million in fiscal 2012, a decrease in earnings of \$128.1 million (39%). Our grain marketing earnings decreased by \$61.8 million during the year ended August 31, 2013 compared with fiscal 2012, primarily as a result of lower export margins. Earnings from our wholesale crop nutrients business declined \$30.5 million for the year ended August 31, 2013 compared with fiscal 2012, primarily due to decreased product margins and \$13.0 million of costs associated with the nitrogen fertilizer manufacturing

plant feasibility study described above. Our country operations earnings decreased \$15.9 million during the year ended August 31, 2013 compared to the prior year, primarily due to decreased grain margins. The decrease in earnings of \$22.2 million in our processing and food ingredients businesses for the year ended August 31, 2013 compared to the prior year, primarily related to costs associated with a voluntary recall of certain soy protein products produced at our Ashdod, Israel facility. We initiated the recall in May 2013. We estimate our range of loss associated with this recall to be between \$14.4 million and \$39.7 million. During the year ended August 31, 2013, we recorded a reserve of \$25.0 million, which is the amount within the range that we believe is the best estimate given the claims experience so far. We maintain product liability and general liability insurance (which includes product liability coverage), which we believe will offset some related product liability expenses. However, as of August 31, 2013, no insurance recoveries have been recorded related to this incident. In addition, we incurred costs of \$20.1 million in connection with plant downtime, inventory write-downs and other costs in connection with the recall. Additional costs may be incurred in the future related to the recall. The decrease in earnings in our processing and food ingredients businesses was partially offset by increased margins from our soybean crushing and refining businesses and \$5.7 million in acquisition costs related to our acquisition of Solbar during the year ended August 31, 2012. See Note 17, Acquisitions for additional information.

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Corporate and Other generated income before income taxes of \$70.0 million during fiscal 2013 compared to \$61.6 million during fiscal 2012, an increase in earnings of \$8.3 million (14%). Business solutions earnings remained relatively flat during the year ended August 31, 2013 compared with fiscal 2012, which reflected other income in our insurance services, partially offset by decreases in activities in our hedging services. Our share of earnings from Ventura Foods, our packaged foods joint venture, net of allocated expenses, increased by \$7.1 million during the year ended August 31, 2013, compared to the prior year, primarily from improved margins. Our share of earnings from our wheat milling joint ventures, net of allocated expenses, increased by \$3.0 million for the year ended August 31, 2013 compared to the prior year, primarily as a result of increased margins.

Net Income attributable to CHS Inc. Consolidated net income attributable to CHS Inc. for the year ended August 31, 2013 was \$992.4 million compared to \$1.3 billion for the year ended August 31, 2012, which represents a \$268.2 million (21%) decrease.

Revenues. Consolidated revenues were \$44.5 billion for the year ended August 31, 2013 compared to \$40.6 billion for the year ended August 31, 2012, which represents a \$3.9 billion (10%) increase.

Our Energy segment revenues, after elimination of intersegment revenues, of \$12.5 billion increased by \$151.9 million (1%) during the year ended August 31, 2013 compared to fiscal 2012. During the years ended August 31, 2013 and 2012, our Energy segment recorded revenues from sales to our Ag segment of \$481.5 million and \$467.6 million, respectively, which are eliminated as part of the consolidation process. The net increase of \$151.9 million is comprised of an increase of \$266.0 million related to higher sales volume, partially offset by \$114.1 million related to lower prices. Refined fuels revenues increased \$86.7 million (1%), of which \$52.7 million was related to a net average selling price increase, and \$34.1 million was related to higher volumes, compared to the previous year. The sales price of refined fuels increased \$0.02 per gallon (1%), while volumes increased less than 1%. Renewable fuels marketing revenues increased \$73.8 million (5%), primarily from an increase in the average selling price of \$0.08 per gallon (3%) and a 2% increase in volumes, when compared with fiscal 2012. Propane revenues decreased \$22.5 million (3%), which included \$204.5 million related to a decrease in the net average selling price, partially offset by a \$182.0 million increase in volume, when compared to the previous year. The average selling price of propane decreased \$0.28 per gallon (21%), which was largely offset by a 23% increase in sales volumes, when compared to the prior year.

Our Ag segment revenues of \$31.9 billion increased \$3.7 billion (13%) during the year ended August 31, 2013 compared to fiscal 2012.

Grain revenues in our Ag segment totaled \$23.8 billion and \$20.6 billion during the years ended August 31, 2013 and 2012, respectively. Of the grain revenues increase of \$3.2 billion (16%), \$2.1 billion is due to a 10% net increase in volumes and \$1.2 billion is due to increased average grain selling prices, during the year ended August 31, 2013 compared to the prior fiscal year. The average sales price of all grain and oilseed commodities sold reflected an increase of \$0.50 per bushel (5%) over fiscal 2012. Wheat, soybeans, and corn all had increased volumes compared to the year ended August 31, 2012.

Our processing and food ingredients revenues in our Ag segment of \$1.9 billion increased \$301.0 million (19%) during fiscal 2013 compared to fiscal 2012. The net increase in revenues is comprised of a \$258.2 million increase in the average selling price of our oilseed products and a net increase of \$42.8 million related to increased volumes, including volumes from recent acquisitions, as compared to fiscal 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 \$2.7 billion and \$2.8 billion during the years ended August 31, 2013 and 2012, respectively. Of the wholesale crop nutrient revenues decrease of \$90.6 million (3%), \$411.2 million was related to decreased average fertilizer selling prices, partially offset by \$320.6 million related to increased volumes during the year ended August 31, 2013 compared to the prior fiscal year. The average sales price of all fertilizers sold reflected a decrease of \$66 per ton (13%) over fiscal 2012. Our wholesale crop nutrient volumes increased 12% during the year ended August 31, 2013 compared with fiscal 2012.

Our Ag segment other product revenues, primarily feed and farm supplies, of \$3.3 billion increased by \$196.3 million (6%) during fiscal 2013 compared to fiscal 2012, primarily the result of increased revenues in our global sales of retail crop nutrients and our country operations sales of feed, crop protection and sunflower products, including additional volumes from acquisitions. Other revenues within our Ag segment of \$244.1 million during fiscal 2013 increased \$30.6 million (14%) compared to fiscal 2012 primarily due to increased service activities related to the spring planting season, including additional volumes generated from acquisitions.

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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 of \$42.7 billion for the year ended August 31, 2013 compared to \$38.6 billion for the year ended August 31, 2012, which represents a \$4.1 billion (11%) increase.

Our Energy segment cost of goods sold, after elimination of intersegment costs, of \$11.4 billion increased by \$318.1 million (3%) during fiscal 2013 compared to fiscal 2012. The increase in cost of goods sold is primarily due to an increase in costs for refined fuels products and RINs. Specifically, refined fuels cost of goods sold increased \$273.3 million (3%) which reflects an increase in the average cost of refined fuels of \$0.08 per gallon (3%) while volumes increased less than 1% when compared to the year ended August 31, 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 increased 4% compared to the year ended August 31, 2012, which is reflected in the \$0.08 per gallon increase in average cost of refined fuels. Renewable fuels marketing costs increased \$70.3 million (5%), primarily from an increase in the average cost of \$0.07 per gallon (3%) and a 2% increase in volumes, when compared with the previous year. The cost of propane decreased by \$14.1 million, which included an average cost decrease of \$0.27 per gallon (21%), partially offset by a 23% increase in volumes, when compared to the year ended August 31, 2012.

Our Ag segment cost of goods sold of \$31.3 billion increased \$3.8 billion (14%) during fiscal 2013 compared to fiscal 2012.

Grain cost of goods sold in our Ag segment totaled \$23.9 billion and \$20.4 billion during the years ended August 31, 2013 and 2012, respectively. The cost of grains and oilseed procured through our Ag segment increased \$3.5 billion (17%) compared to the year ended August 31, 2012. This is primarily the result of a 10% net increase in bushels sold and a \$0.60 (6%) increase in the average cost per bushel, as compared to the prior year. The average month-end per bushel market price of soybeans and corn increased, while spring wheat decreased compared to the prior fiscal year.

Our processing and food ingredients cost of goods sold in our Ag segment of \$1.9 billion increased \$359.3 million (24%) during fiscal 2013 compared to fiscal 2012, which was primarily due to increases in the cost of soybeans purchased and higher volumes of products sold, which includes volumes from recent acquisitions. The increase in cost of goods sold in our processing and food ingredients businesses included \$25.0 million of costs associated with the previously described voluntary recall of certain soy protein products. In addition, we incurred costs of \$20.1 million in connection with plant downtime, inventory write-downs and other costs in connection with the recall. Additional costs may be incurred in the future related to the recall.

Wholesale crop nutrients cost of goods sold in our Ag segment totaled \$2.6 billion and \$2.7 billion during the years ended August 31, 2013 and 2012 respectively. The net decrease of \$38.0 million (1%) is comprised of a net decrease in the average cost per ton of fertilizer of \$56 (12%), partially offset by a 12% increase in tons sold, when compared to the prior fiscal year.

Our Ag segment other product cost of goods sold, primarily feed and farm supplies, increased \$161.2 million (6%) during fiscal 2013 compared to fiscal 2012, primarily the result of increased revenues in our global sales of retail crop nutrients and our country operations sales of feed and sunflower products, including additional volumes from acquisitions.

Marketing, General and Administrative. Marketing, general and administrative expenses of \$553.6 million for the year ended August 31, 2013 increased by \$55.4 million (11%) compared to fiscal 2012. This net increase is primarily due to the expansion of foreign operations and acquisitions in our Ag segment, as well as, costs associated with the nitrogen fertilizer manufacturing plant feasibility study described above.

(Gain) Loss on Investments. Gain on investments is \$0.2 million for the year ended August 31, 2013.

Interest, net. Net interest of \$231.6 million for the year ended August 31, 2013 increased \$38.3 million compared to fiscal 2012. Interest expense for the years ended August 31, 2013 and 2012 was \$248.4 million and \$207.3 million, respectively. The increase in interest expense of \$41.1 million is primarily due to a \$35.3 million increase in patronage earned by the noncontrolling interests of NCRA when compared to fiscal 2012. See Note 17, Acquisitions for additional information.

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The increase in interest expense was also due to the issuance of private placements for long-term debt totaling \$280.0 million during the year ended August 31, 2013. In addition, short-term borrowings increased during the year ended August 31, 2013 compared to the previous fiscal year. The average level of short-term borrowings increased \$222.2 million during the year ended August 31, 2013 compared to the previous year, of which \$224.1 million related to line of credit activity for international subsidiaries. For the years ended August 31, 2013 and 2012, we capitalized interest of \$10.6 million and \$8.9 million, respectively, primarily related to construction projects at both refineries in our Energy segment. Interest income was \$6.2 million and \$5.1 million for the years ended August 31, 2013 and 2012, respectively.

Equity Income from Investments. Equity income from investments of \$97.4 million for the year ended August 31, 2013 decreased \$5.0 million (5%) compared to fiscal 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 reduced earnings from investments in our Ag and Energy segments of \$7.5 million and \$6.2 million, respectively, partially offset by improved earnings from investments in Corporate and Other of \$8.7 million. The net increase in equity income from investments in Corporate and Other was attributable to Ventura Foods, our vegetable oil-based products and packaged foods joint venture, which increased \$6.1 million compared to fiscal 2012, as well as our wheat milling joint venture earnings, which increased by \$2.8 million compared to fiscal 2012.

Income Taxes. Income tax expense of \$89.7 million for the year ended August 31, 2013, compared with \$80.9 million for fiscal 2012, resulting in effective tax rates of 8.3% and 5.7%, respectively. The federal and state statutory rate applied to nonpatronage business activity was 38.1% for the years ended August 31, 2013 and 2012. 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 \$3.9 million for the year ended August 31, 2013 decreased by \$71.1 million (95%) compared to fiscal 2012. As described in Note 17, Acquisitions, the portion of NCRA earnings attributable to the noncontrolling interests for our first quarter of fiscal 2012, prior to the transaction date, have been included in net income attributable to noncontrolling interests. Beginning in the second quarter of fiscal 2012, earnings 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.

Comparison of the years ended August 31, 2012 and 2011

General. We recorded income before income taxes of \$1.4 billion in fiscal 2012 compared to \$1.1 billion in fiscal 2011, an increase of \$268.9 million (23%). Operating results reflected increased pretax earnings in our Energy segment, partially offset by decreased pretax earnings in our Ag segment and in Corporate and Other.

Our Energy segment generated income before income taxes of \$1.0 billion for the year ended August 31, 2012 compared to \$629.9 million in fiscal 2011, representing an increase of \$397.6 million (63%). The increase in earnings is primarily from improved margins on refined fuels at both our Laurel, Montana refinery and the NCRA refinery in McPherson, Kansas. Earnings in our propane and transportation businesses also improved, while our renewable fuels marketing and lubricants businesses experienced decreased earnings during the year ended August 31, 2012 when compared to the previous year.

Our Ag segment generated income before income taxes of \$327.4 million for the year ended August 31, 2012 compared to \$434.8 million in fiscal 2011, a decrease in earnings of \$107.3 million (25%). Earnings from our wholesale crop nutrients business improved \$8.1 million for the year ended August 31, 2012 compared with fiscal 2011, primarily due to increased margins from capturing market appreciation with successful product sourcing and placement. Our country operations earnings increased \$4.6 million during the year ended August 31, 2012 compared to the prior year, primarily as a result of increased retail merchandise volumes, partially offset by decreased grain volumes. Our grain marketing earnings decreased by \$101.3 million during the year ended August 31, 2012 compared with fiscal 2011, primarily as a result of a pre-tax gain on the sale of our investment in Multigrain AG (Multigrain) of \$119.7 million during fiscal 2011. We also experienced decreased grain volumes during fiscal 2012, primarily due to large crops harvested in the Black Sea, South America and Australia, which reduced our U.S. grain exports and reduced our earnings. In addition, the fall harvest produced short crops in the U.S., which also negatively impacted our volumes. Our processing and food ingredients margins increased, but we experienced a decrease in earnings of \$19.2 million for the year ended August 31, 2012 compared to the prior year, primarily related to acquisition costs of \$5.7 million as well as additional administrative costs and allocated interest related to our Solbar and Creston acquisitions. See Note 17, Acquisitions for additional information.

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Corporate and Other generated income before income taxes of \$61.6 million during fiscal 2012 compared to \$83.0 million during fiscal 2011, a decrease in earnings of \$21.3 million (26%). Business solutions earnings remained relatively flat during the year ended August 31, 2012 compared with fiscal 2011, which reflected increased activities in our hedging services, partially offset by decreases in activities in our financial services. Our share of earnings from Ventura Foods, our packaged foods joint venture, net of allocated expenses, decreased by \$5.9 million during the year ended August 31, 2012, compared to the prior year, primarily from decreased margins. Our share of earnings from our wheat milling joint ventures, net of allocated expenses, decreased by \$3.9 million for the year ended August 31, 2011 compared to the prior year, primarily as a result of decreased margins.

Net Income attributable to CHS Inc. Consolidated net income attributable to CHS Inc. for the year ended August 31, 2012 was \$1.3 billion compared to \$961.4 million for the year ended August 31, 2011, which represents a \$299.3 million (31%) increase.

Revenues. Consolidated revenues were \$40.6 billion for the year ended August 31, 2012 compared to \$36.9 billion for the year ended August 31, 2011, which represents a \$3.7 billion (10%) increase.

Our Energy segment revenues, after elimination of intersegment revenues, of \$12.3 billion increased by \$1.3 billion (11%) during the year ended August 31, 2012 compared to fiscal 2011. During the years ended August 31, 2012 and 2011, our Energy segment recorded revenues from sales to our Ag segment of \$467.6 million and \$383.4 million, respectively, which are eliminated as part of the consolidation process. The net increase of \$1.3 billion is comprised of a net increase of \$669.0 million related to higher prices and \$593.0 million related to higher sales volume. Refined fuels revenues increased \$1.4 billion (17%), of which \$402.8 million was related to a net average selling price increase, and \$951.7 million related to higher volumes, compared to the previous year. The sales price of refined fuels increased \$0.13 per gallon (4%), while volumes increased 12%. Propane revenues were relatively flat, which included \$9.5 million related to a decrease in the net average selling price, partially offset by an \$8.6 million increase in volume, when compared to the previous year. The average selling price of propane decreased \$0.02 per gallon (1%), almost entirely offset by a 1% increase in sales volumes, when compared to the prior year. Renewable fuels marketing revenues increased \$14.1 million (1%), primarily from a 5% increase in volumes, partially offset by a decrease in the average selling price of \$0.10 per gallon (4%), when compared with fiscal 2011.

Our Ag segment revenues, after elimination of intersegment revenues, of \$28.2 billion increased \$2.4 billion (9%) during the year ended August 31, 2012 compared to fiscal 2011.

Grain revenues in our Ag segment totaled \$20.6 billion and \$19.6 billion during the years ended August 31, 2012 and 2011, respectively. Of the grain revenues increase of \$1.0 billion (5%), \$1.2 billion is due to increased average grain selling prices, partially offset by a \$226.2 million decrease due to a 1% net decrease in volumes, during the year ended August 31, 2012 compared to the prior fiscal year. The average sales price of all grain and oilseed commodities sold reflected an increase of \$0.56 per bushel (6%) over fiscal 2011. Corn had increased volumes, and soybeans and wheat had decreased volumes compared to the year ended August 31, 2011.

Our processing and food ingredients revenues in our Ag segment of \$1.5 billion increased \$245.1 million (19%) during fiscal 2012 compared to fiscal 2011. The net increase in revenues is comprised of \$93.0 million from an increase in the average selling price of our oilseed products and a net increase of \$152.1 million related to increased volumes, as compared to fiscal 2011. The increase in volumes is largely attributable to our Solbar and Creston acquisitions. 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 \$2.8 billion and \$2.4 billion during the years ended August 31, 2012 and 2011, respectively. Of the wholesale crop nutrient revenues increase of \$370.8 million (15%), \$321.2 million was related to increased average fertilizer selling prices and \$49.6 million was due to increased volumes during the year ended August 31, 2012 compared to the prior fiscal year. The average sales price of all fertilizers sold reflected an increase of \$58 per ton (13%) over fiscal 2011. Our wholesale crop nutrient volumes increased 2% during the year ended August 31, 2012 compared with fiscal 2011.

Our Ag segment other product revenues, primarily feed and farm supplies, of \$3.1 billion increased by \$733.8 million (32%) during fiscal 2012 compared to fiscal 2011, primarily the result of increased revenues in our country operations sales of retail crop nutrients, feed, crop protection and energy products, which includes additional volumes from acquisitions. Other revenues within our Ag segment of \$213.4 million during fiscal 2012 increased \$22.3 million (12%) compared to fiscal 2011 primarily due to increased service activities related to the spring planting season, including additional volumes generated from acquisitions.

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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 of \$38.6 billion for the year ended August 31, 2012 compared to \$35.5 billion for the year ended August 31, 2011, which represents a \$3.1 billion (9%) increase.

Our Energy segment cost of goods sold, after elimination of intersegment costs, of \$11.0 billion increased by \$735.6 million (7%) during fiscal 2012 compared to fiscal 2011. The increase in cost of goods sold is primarily due to an increase in sales volumes for refined fuels products. Specifically, refined fuels cost of goods sold increased \$812.4 million (11%) which reflects a 12% increase in volumes, partially offset by a decrease in the average cost of refined fuels of \$0.03 per gallon (1%) compared to the year ended August 31, 2011. 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 was relatively flat compared to the year ended August 31, 2011, which is reflected in the \$0.03 per gallon decrease in average cost of refined fuels. An increase in the contingent crack spread liability related to our purchase of noncontrolling interests of NCRA of \$22.3 million was reflected in an increase in refined fuels cost of goods sold. The cost of propane was relatively flat, which was reflected by a 1% increase in volumes, partially offset by an average cost decrease of \$0.02 per gallon (2%), when compared to the year ended August 31, 2011. Renewable fuels marketing costs increased \$17.0 million (1%), primarily from a 5% increase in volumes, partially offset by a decrease in the average cost of \$0.10 per gallon (4%), when compared with the previous year.

Our Ag segment cost of goods sold, after elimination of intersegment costs, of \$27.5 billion increased \$2.3 billion (9%) during fiscal 2012 compared to fiscal 2011. Grain cost of goods sold in our Ag segment totaled \$20.4 billion and \$19.3 billion during the years ended August 31, 2012 and 2011, respectively. The cost of grains and oilseed procured through our Ag segment increased \$1.0 billion (5%) compared to the year ended August 31, 2011. This is primarily the result of a \$0.58 (7%) increase in the average cost per bushel, partially offset by a 1% net decrease in bushels sold, as compared to the prior year. The average month-end market price per bushel of soybeans and corn increased, while spring wheat decreased compared to the prior fiscal year.

Our processing and food ingredients cost of goods sold in our Ag segment of \$1.5 billion increased \$232.7 million (18%) during fiscal 2012 compared to fiscal 2011, which was primarily due to additional sales resulting from our Solbar and Creston acquisitions, coupled with increases in the cost of soybeans purchased and higher volumes of oilseed refined products sold.

Wholesale crop nutrients cost of goods sold in our Ag segment totaled \$2.7 billion and \$2.3 billion during the years ended August 31, 2012 and 2011 respectively. The net increase of \$379.5 million (17%) is comprised of a net increase in tons sold of 2%, in addition to an increase in the average cost per ton of fertilizer of \$60 (14%), when compared to the prior fiscal year.

Our Ag segment other product cost of goods sold, primarily feed and farm supplies, increased \$670.5 million (34%) during fiscal 2012 compared to fiscal 2011, primarily the result of increased revenues in our country operations sales of retail crop nutrients, feed, crop protection and energy products, and includes additional

volumes from acquisitions.

Marketing, General and Administrative. Marketing, general and administrative expenses of \$498.2 million for the year ended August 31, 2012 increased by \$59.7 million (14%) compared to fiscal 2011. This net increase is primarily due to the expansion of foreign operations and acquisitions in our Ag segment.

(Gain) Loss on Investments. Loss on investments of \$5.5 million for the year ended August 31, 2012 reflects a decrease of \$132.2 million from a net gain on investments in fiscal 2011. During the year ended August 31, 2011, we sold our 45% ownership interest in Multigrain to one of our joint venture partners, Mitsui & Co., Ltd., for \$225.0 million and recognized a pre-tax gain of \$119.7 million included in our Ag segment. We also recorded pre-tax gains of \$9.0 million in fiscal 2011 related to cash distributions received from Agrilience for proceeds received from the sale of many of the Agrilience retail facilities, and the collection of receivables, which is included in Corporate and Other.

Interest, net. Net interest of \$193.3 million for the year ended August 31, 2012 increased \$118.4 million compared to fiscal 2011. Interest expense for the years ended August 31, 2012 and 2011 was \$207.3 million and \$83.0 million, respectively. The increase in interest expense of \$124.2 million is primarily due to interest accretion of \$6.0 million related to the purchase

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of the NCRA noncontrolling interests and \$107.2 million of patronage earned by the noncontrolling interests of NCRA. See Note 17, Acquisitions for additional information. The increase in interest expense was also due to a private placement of \$500.0 million in June 2011 for long-term debt, partially offset by decreased short-term borrowings from decreased working capital needs during the year ended August 31, 2012 compared to the previous fiscal year. The average level of short-term borrowings decreased \$625.2 million, primarily due to decreased working capital needs during the year ended August 31, 2012 compared to the previous year, of which \$113.5 million related to CHS Capital activity. For the years ended August 31, 2012 and 2011, we capitalized interest of \$8.9 million and \$5.5 million, respectively, primarily related to construction projects at both refineries in our Energy segment. Interest income was \$5.1 million and \$2.7 million for the years ended August 31, 2012 and 2011, respectively.

Equity Income from Investments. Equity income from investments of \$102.4 million for the year ended August 31, 2012 decreased \$29.0 million (22%) compared to fiscal 2011. 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 reduced earnings from investments in our Ag segment and Corporate and Other of \$17.7 million and \$12.0 million, respectively, partially offset by improved earnings from investments in our Energy segment of \$0.7 million.

Our Ag segment generated reduced equity investment earnings of \$17.7 million. We had a net decrease of \$19.1 million from our share of equity investment earnings in our grain marketing joint ventures during fiscal 2012 compared to the previous fiscal year, which is primarily related to the dissolution of United Harvest and decreased earnings related to a reduction in U.S. exports, partially offset by our sale of Multigrain. Our country operations business reported an aggregate increase in equity investment earnings of \$1.9 million from several small equity investments.

Corporate and Other generated decreased equity investment earnings of \$12.0 million, primarily from Ventura Foods, our vegetable oil-based products and packaged foods joint venture, which decreased \$5.8 million compared to fiscal 2011, as well as our wheat milling joint venture earnings, which also decreased by \$5.8 million compared to fiscal 2011.

Income Taxes. Income tax expense of \$80.9 million for the year ended August 31, 2012, compared with \$86.6 million for fiscal 2011, resulting in effective tax rates of 5.7% and 7.5%, respectively. During fiscal 2011, as a result of the sale of our Multigrain investment, we reduced a valuation allowance related to the carryforward of certain capital losses that will expire on August 31, 2014, by \$24.6 million. The federal and state statutory rate applied to nonpatronage business activity was 38.1% and 38.9% for the years ended August 31, 2012 and 2011, 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 \$75.1 million for the year ended August 31, 2012 decreased by \$24.6 million (25%) compared to fiscal 2011. As described in Note 17, Acquisitions, the portion of NCRA earnings attributable to the noncontrolling interests for our first quarter of 2012, prior to the transaction date, have been included in net income attributable to noncontrolling interests. Beginning in the second quarter of fiscal 2012, earnings 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 August 31, 2013, we had working capital, defined as current assets less current liabilities, of \$3,125.4 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 August 31, 2013, we had a five-year revolving facility which expires in June 2018, with a committed amount of \$2.5 billion, which had no amounts outstanding. As of August 31, 2012 we had two revolving lines of credit totaling \$2.5 billion, which had no amounts outstanding and both of which were terminated and replaced by the existing facilities in June 2013. 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 3.00 to 1.00. 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 0.80 to 1.00 at any time. As of August 31, 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

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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 statement in Part I, Item 1A of this Annual Report on Form 10-K, and may affect net operating assets and liabilities, and liquidity.

Cash flows provided by operating activities were \$2.5 billion, \$718.6 million and \$301.3 million for the years ended August 31, 2013, 2012 and 2011, respectively. The fluctuation in cash flows from operations between fiscal 2013 and 2012 was primarily from a substantial increase in cash inflows for net changes in operating assets and liabilities during fiscal 2013, compared to fiscal 2012, partially offset by a decrease in operating earnings in fiscal 2013 compared to fiscal 2012. Commodity prices decreased significantly during fiscal 2013 and resulted in decreased working capital needs compared to fiscal 2012. The fluctuation in cash flows from operations between fiscal 2012 and 2011 was primarily from increased operating earnings in fiscal 2012 compared to fiscal 2011, in addition to a slight decrease in cash outflows for net changes in operating assets and liabilities during fiscal 2012, compared to fiscal 2011.

Our operating activities provided net cash of \$2.5 billion during the year ended August 31, 2013. Net income including noncontrolling interests of \$1.0 billion, net non-cash expenses and cash distributions from equity investments of \$340.5 million and a decrease in net operating assets and liabilities of \$1.1 billion contributed to the net cash provided by 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 \$276.6 million, deferred taxes of \$92.7 million and the loss on our crack spread contingent liability of \$23.1 million, which were partially offset by income from equity investments, net of distributions from those investments, of \$34.6 million. The decrease in net operating assets and liabilities was caused primarily by a decrease in commodity prices, in addition to inventory quantities, and is reflected in decreased receivables, inventories, margin deposits and derivative assets, partially offset by an increase in derivative liabilities on August 31, 2013 when compared to August 31, 2012. On August 31, 2013, the per bushel market prices of our primary grain commodities, corn, spring wheat and soybeans, decreased by \$3.21 (40%), \$2.02 (22%) and \$4.07 (23%), respectively, when compared to the spot prices on August 31, 2012. In general, crude oil market prices increased \$11 per barrel (12%) on August 31, 2013 when compared to August 31, 2012. On August 31, 2013, fertilizer commodity prices affecting our wholesale crop nutrients and country operations retail businesses reflected decreases between 19% and 31%, depending on the specific products, compared to prices on August 31, 2012. A decrease in grain inventory quantities in our Ag segment of 44.1 million bushels (30%) also contributed to the decrease in net operating assets and liabilities when comparing inventories at August 31, 2013 to August 31, 2012.

Our operating activities provided net cash of \$718.6 million during the year ended August 31, 2012. Net income including noncontrolling interests of \$1.3 billion and net non-cash expenses and cash distributions from equity investments of \$297.2 million, were partially offset by an increase in net operating assets and liabilities of \$914.3 million. 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 \$253.3 million, deferred taxes of \$58.6 million and the loss on the crack spread contingent liability of \$22.3 million, which were partially offset by income from equity investments, net of distributions from those investments, of \$26.9 million. The increase in net operating assets and liabilities was caused primarily by an increase in commodity prices, in addition to inventory quantities, and is reflected in increased receivables, inventories and derivative assets, partially offset by an increase in derivative liabilities on August 31, 2012 when compared to August 31, 2011. On August 31, 2012, the per bushel market prices of two of our primary grain commodities, corn and soybeans, increased by \$0.45 (6%) and \$3.16 (22%), respectively; while the per bushel market price of our third primary commodity, spring wheat, decreased by \$0.35 (4%) when compared to the spot prices on August 31, 2011. In general, crude oil market prices increased \$8 per barrel (9%) on August 31, 2012 when compared to August 31, 2011. On August 31, 2012, fertilizer commodity prices affecting our wholesale crop nutrients and country operations retail businesses generally reflected decreases between 1% and 14%, depending on the specific products, compared to prices on August 31, 2011. An increase in grain inventory quantities in our Ag segment of 23.0 million bushels (19%) also contributed to the increase in net operating assets and liabilities when comparing inventories at August 31, 2012 to August 31, 2011.

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Our operating activities provided net cash of \$301.3 million during the year ended August 31, 2011. Net income including noncontrolling interests of \$1.1 billion and net non-cash expenses and cash distributions from equity investments of \$183.9 million, were partially offset by an increase in net operating assets and liabilities of \$943.6 million. 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 \$251.2 million, deferred taxes of \$67.1 million and distributions from equity investments, net of income from those investments, of \$6.4 million, which were partially offset by gain on investments of \$126.7 million. Gain on investments was previously described in “Results of Operations,” and is primarily comprised of the pre-tax gain on the sale of our Multigrain investment in the amount of \$119.7 million. The increase in net operating assets and liabilities was caused primarily by an increase in commodity prices and is reflected in increased inventories, receivables, margin deposits and derivative assets, partially offset by an increase in accounts payable, accrued expenses, derivative liabilities and customer credit balances on August 31, 2011 when compared to August 31, 2010. On August 31, 2011, the per bushel market prices of our three primary grain commodities, corn, soybeans and spring wheat, increased by \$3.33 (78%), \$4.41 (44%) and \$2.71 (39%), respectively, when compared to the spot prices on August 31, 2010. In general, crude oil market prices increased \$17 per barrel (23%) on August 31, 2011 when compared to August 31, 2010. In addition, on August 31, 2011, fertilizer commodity prices affecting our wholesale crop nutrients and country operations retail businesses generally reflected increases between 26% and 55%, depending on the specific products, compared to prices on August 31, 2010. A decrease in grain inventory quantities in our Ag segment of 29.7 million bushels (20%) partially offset the effect that increased grain prices had on net operating assets and liabilities when comparing inventories at August 31, 2011 to August 31, 2010.

Cash Flows from Investing Activities

For the years ended August 31, 2013, 2012 and 2011, the net cash flows used in our investing activities totaled \$535.0 million, \$694.2 million and \$551.0 million, respectively.

The acquisition of property, plant and equipment comprised the primary use of cash totaling \$659.4 million, \$468.6 million and \$310.7 million for the years ended August 31, 2013, 2012 and 2011, respectively.

Expenditures for major repairs related to our refinery turnarounds were \$73.7 million, \$23.4 million and \$92.1 million during the years ended August 31, 2013, 2012 and 2011, respectively. Refineries have planned major maintenance to overhaul, repair, inspect and replace process materials and equipment which typically occur for a five-to-six week period every 2-4 years. Our Laurel, Montana refinery completed turnarounds during the years ended August 31, 2013, 2012 and 2011. NCRA's McPherson, Kansas refinery completed a turnaround during the year ended August 31, 2011. There are no turnarounds scheduled for fiscal 2014.

For the year ending August 31, 2014, we expect total expenditures for the acquisition of property, plant and equipment and major repairs at our refineries to be approximately \$650.0 million. Included in our expected capital expenditures for fiscal 2014, is \$195.2 million for a project to replace a coker at NCRA's McPherson, Kansas refinery with an expected total cost of \$555.0 million and expected completion in fiscal 2015. We incurred \$124.0 million and \$60.4 million of costs related to the coker project during the years ended August 31, 2013 and 2012, respectively. We also began a \$327.0 million expansion at NCRA's McPherson, Kansas refinery during the year ended August 31, 2013 which is anticipated to be completed in fiscal 2016. We incurred \$25.0 million of costs related to the NCRA expansion during the year ended August 31, 2013.

Cash acquisitions of businesses, net of cash acquired, totaled \$12.7 million, \$166.0 million and \$67.5 million during the years ended August 31, 2013, 2012 and 2011, respectively. In fiscal 2012, we acquired Solbar for \$128.7 million, net of cash acquired, which is included in our Ag segment. This acquisition deepens our presence in the value-added soy protein market. Solbar and its subsidiaries operate in the countries of Israel, China and the U.S. See Note 17, Acquisitions for additional information. In fiscal 2012, we also purchased an oilseed crushing facility in Creston, Iowa for \$32.3 million, which is included in our Ag segment. In fiscal 2011, our wholly owned subsidiary, CHS Europe, S.A., purchased all of the outstanding shares of stock of Agri Point Ltd. (Agri Point), a Cyprus company, for \$62.4 million, net of cash acquired. The acquisition is included in our Ag segment, and was completed with the purpose of expanding our global grain origination. Agri Point and its subsidiaries operate in the countries of Romania, Hungary, Bulgaria and Serbia, with a deep water port facility in Constanta, Romania, a barge loading facility on the Danube River in Romania and an inland grain terminal in Hungary.

Investments made in joint ventures and other investments during the years ended August 31, 2013, 2012 and 2011, totaled \$21.4 million, \$94.8 million and \$6.1 million, respectively. During fiscal 2012, we made a \$45.4 million capital contribution to Agriliance to fund the pension plan prior to the transfer of its assets and liabilities to CHS and Land O'Lakes, Inc. Our approximate 45% equity interest in Multigrain was sold during fiscal 2011 to one of the joint venture partners, as previously described in "Results of Operations." During fiscal 2013 and 2012, we used \$8.1 million and \$26.7 million of the

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proceeds from our sale of Multigrain for investment opportunities in South America and intend to continue to invest in that region.

Changes in notes receivable for the year ended August 31, 2013, resulted in a net increase in cash flows of \$211.9 million. The primary cause of the net increase in cash flows during fiscal 2013 was a decrease in CHS Capital notes receivable of \$189.3 million and a decrease in NCRA notes receivables, compared to August 31, 2012. Changes in notes receivable for the year ended August 31, 2012, resulted in a net increase in cash flows of \$19.0 million. The primary cause of the net increase in cash flows during fiscal 2012 was a decrease in NCRA notes receivables, partially offset by an increase in CHS Capital notes receivable of \$11.9 million, compared to August 31, 2011. Changes in notes receivable for the year ended August 31, 2011, resulted in a net decrease in cash flows of \$347.5 million. The primary cause of the net decrease in cash flows was additional CHS Capital notes receivable from its customers in the amount of \$272.2 million on August 31, 2011, compared to August 31, 2010. The balance of the net decrease in cash flows in fiscal 2011 was primarily from increased related party notes receivable at NCRA from its minority owners.

Partially offsetting our cash outlays for investing activities during the years ended August 31, 2013, 2012 and 2011, were proceeds from the sale of investments and redemptions of investments. During fiscal 2011, we received proceeds from the sale of our equity interest in Multigrain of \$225.0 million, as previously described in "Results of Operations." During fiscal 2013 and 2012, we received cash from redemptions of investments totaling \$13.0 million and \$12.1 million, respectively. Redemptions of investments totaled \$39.7 million during fiscal 2011, of which \$28.0 million of the redemptions were returns of capital from Agrilience for proceeds Agrilience received from the sale of many of its retail facilities and the collection of receivables. Also partially offsetting our cash outlays for investing activities during the years ended August 31, 2013, 2012 and 2011, were proceeds received from the disposition of property, plant and equipment of \$7.7 million, \$27.8 million and \$9.5 million, respectively.

Cash Flows from Financing Activities

For the years ended August 31, 2013, 2012 and 2011, the net cash flows (used in) provided by our financing activities totaled \$(443.2) million, \$(638.9) million and \$786.9 million, respectively.

Working Capital Financing:

We finance our working capital needs through short-term lines of credit with a syndication of domestic and international banks. On August 31, 2013, we had a five-year revolving facility with a committed amount of \$2.5 billion, which had no amounts outstanding. As of August 31, 2012 we had two revolving lines of credit totaling \$2.5 billion, which had no amounts outstanding and both of which were terminated and replaced by the existing facilities in June 2013. In addition to our primary revolving lines of credit, we have a committed revolving credit facility dedicated to NCRA, with a syndication of banks in the amount of \$15.0 million which expires in December 2014. We also have a four-year, \$80.0 million committed revolving facility dedicated to CHS Europe S.A. (CHS Europe) that expires in September 2018. Our wholly-owned subsidiaries, CHS Europe and CHS Agronegocio Industria e Comercio Ltda (CHS Agronegocio), have uncommitted lines of credit which are collateralized by \$420.1 million of inventories and receivables at August 31, 2013. In addition, other international subsidiaries have lines of credit totaling \$99.3 million outstanding at August 31, 2013, of which \$60.8 million is collateralized. On August 31, 2013 and 2012, we had total short-term indebtedness outstanding on these various facilities and other miscellaneous short-term notes payable totaling \$521.9 million and \$269.8 million, respectively. In October 2013, we entered into a three-year \$250.0 million committed revolving credit facility for CHS Agronegocio to provide financing for its working capital needs

arising from its purchases and sales of grains, fertilizers and other agricultural products.

We have two commercial paper programs totaling up to \$125.0 million, with two banks participating in our revolving credit facilities. Terms of our credit facilities allow a maximum usage of \$200.0 million to pay principal under any commercial paper facility. On August 31, 2013 and 2012, we had no commercial paper outstanding.

CHS Capital Financing:

Cofina Funding, LLC (Cofina Funding), a wholly-owned subsidiary of CHS Capital, had available credit totaling \$300.0 million as of August 31, 2013, under note purchase agreements with various purchasers, through the issuance of short-term notes payable. CHS Capital sells eligible commercial loans receivable it has originated to Cofina Funding, which are then pledged as collateral under the note purchase agreements. The notes payable issued by Cofina Funding bear interest at variable rates based on commercial paper. There were no borrowings by Cofina Funding utilizing the issuance of commercial paper under the note purchase agreements as of August 31, 2013.

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CHS Capital has available credit under master participation agreements with numerous counterparties. Borrowings under these agreements are accounted for as secured borrowings and bear interest at variable rates ranging from 1.96% to 2.69% as of August 31, 2013. As of August 31, 2013, the total funding commitment under these agreements was \$223.8 million, of which \$30.8 million was borrowed.

CHS Capital sells loan commitments it has originated to ProPartners Financial (ProPartners) on a recourse basis. The total capacity for commitments under the ProPartners program is \$300.0 million. The total outstanding commitments under the program totaled \$68.1 million as of August 31, 2013, of which \$45.7 million was borrowed under these commitments with an interest rate of 1.60%.

CHS Capital borrows funds under short-term notes issued as part of a surplus funds program. Borrowings under this program are unsecured and bear interest at variable rates ranging from 0.80% to 1.10% as of August 31, 2013, and are due upon demand. Borrowings under these notes totaled \$290.9 million as of August 31, 2013.

As of August 31, 2012, the net borrowings under the Cofina Funding note purchase agreements were \$121.5 million and secured borrowings were \$122.7 million. CHS Capital borrowings under the ProPartners program and the surplus funds program were \$158.2 million and \$131.4 million, respectively, as of August 31, 2012.

Long-term Debt Financing:

We typically finance our long-term capital needs, primarily for the acquisition of property, plant and equipment, with long-term agreements with various insurance companies and banks.

On August 31, 2013, we had total long-term debt outstanding of \$1,607.0 million, of which \$135.0 million was bank financing, \$1,421.5 million was private placement debt and \$50.5 million was other notes and contracts payable. On August 31, 2012, we had total long-term debt outstanding of \$1,440.4 million, of which \$150.0 million was bank financing, \$1,222.1 million was private placement debt and \$68.3 million was other notes and contracts payable. Our long-term debt is unsecured except for other notes and contracts in the amount of \$16.5 million; however, restrictive covenants under various agreements have requirements for maintenance of minimum consolidated net worth and other financial ratios. We were in compliance with all debt covenants and restrictions as of August 31, 2013. Long-term debt outstanding as of August 31, 2013 has aggregate maturities as follows:

	(Dollars in thousands)
2014	\$ 156,612
2015	164,022
2016	130,219
2017	149,832
2018	162,103
Thereafter	844,245
	\$ 1,607,033

During the years ended August 31, 2013 and 2011, we borrowed \$280.0 million and \$631.9 million, respectively, on a long-term basis. We did not have any new long-term borrowings during the year ended August 31, 2012. During the years ended August 31, 2013, 2012 and 2011, we repaid long-term debt of \$113.6 million, \$96.6 million and \$114.9 million, respectively.

Additional detail on our long-term borrowings and repayments is as follows:

In June 1998, we completed a private placement offering with several insurance companies for long-term debt in the amount of \$225.0 million with an interest rate of 6.81%. Repayments were due in equal annual installments during the years 2008 through 2013. During each of the years ended August 31, 2012 and 2011, repayments totaled \$37.5 million, with the final \$37.5 payment made during the year ended August 31, 2013.

In January 2001, we entered into a note purchase and private shelf agreement with Prudential Insurance Company. The long-term note in the amount of \$25.0 million was paid in full during the year ended August 31, 2011. A subsequent note for

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\$55.0 million was issued in March 2001, related to the private shelf facility, and was also paid in full during the year ended August 31, 2011. During the year ended August 31, 2011, repayments on these notes totaled \$11.4 million.

In October 2002, we completed a private placement with several insurance companies for long-term debt in the amount of \$175.0 million, which was layered into two series. The first series of \$115.0 million has an interest rate of 4.96% and is due in equal semi-annual installments of approximately \$8.8 million during the years 2007 through 2013. The second series of \$60.0 million has an interest rate of 5.60% and is due in equal semi-annual installments of approximately \$4.6 million during years 2012 through 2018. Repayments of \$9.2 million were made on the second series notes during each of the years ended August 31, 2013 and 2012 and a repayment of \$17.7 million was made during fiscal 2011 related to the first series notes.

In March 2004, we entered into a note purchase and private shelf agreement with Prudential Capital Group, and in April 2004, we borrowed \$30.0 million under this arrangement. One long-term note in the amount of \$15.0 million was paid in full during the year ended August 31, 2010. Another long-term note in the amount of \$15.0 million was paid in full during the year ended August 31, 2011. In April 2007, we amended our Note Purchase and Private Shelf Agreement with Prudential Investment Management, Inc. and several other participating insurance companies to expand the uncommitted facility from \$70.0 million to \$150.0 million. We borrowed \$50.0 million under the shelf arrangement in February 2008, for which the aggregate long-term notes have an interest rate of 5.78% and are due in equal annual installments of \$10.0 million during the years 2014 through 2018. In November 2010, we borrowed \$100.0 million under the shelf arrangement, for which the aggregate long-term notes have an interest rate of 4.0% and are due in equal annual installments of \$20.0 million during years 2017 through 2021.

In September 2004, we entered into a private placement with several insurance companies for long-term debt in the amount of \$125.0 million with an interest rate of 5.25%. The debt is due in equal annual installments of \$25.0 million during years 2011 through 2015. Repayments of \$25.0 million were made during each of the years ended August 31, 2013, 2012 and 2011.

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

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

In January 2011, we signed a term loan agreement with the European Bank for Reconstruction and Development (EBRD), the proceeds of which were to be used solely to finance up to one-half of the purchase price of the shares of stock of Agri Point, which also took place in January 2011. In March 2011, we received a draw of \$31.9 million under the agreement. The loan will be paid in full at the end of the seven-year term and bears interest at a variable rate based on the three-month LIBOR plus 2.1%. We have the option to fix the interest for periods of no less than one year on any interest payment date.

In June 2011, we entered into a private placement with certain accredited investors for long-term debt in the amount of \$500.0 million, which was layered into four series. The first series of \$130.0 million has an interest rate of 4.08% and is due in June 2019. The second series of \$160.0 million has an interest rate of 4.52% and is due in June 2021. The third series of \$130.0 million has an interest rate of 4.67% and is due in June 2023. The

fourth series of \$80.0 million has an interest rate of 4.82% and is due in June 2026. Under the agreement, we may from time to time issue additional series of notes pursuant to the agreement, provided that the aggregate principal amount of all notes outstanding at any time may not exceed \$1.5 billion.

In March 2013, we issued \$100 million of notes with an interest rate of 4.71%, which mature in fiscal 2033, in a private placement to institutional investors.

In July 2013, we issued \$80 million and \$100 million of notes with interest rates of 3.85% and 3.80%, respectively, which mature in fiscal 2025, in two private placements to institutional investors.

Other Financing:

During the year ended August 31, 2013, we made the first payment of \$66.0 million relating to our purchase of the NCRA noncontrolling interests.

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Distributions to noncontrolling interests for the years ended August 31, 2013, 2012 and 2011 were \$1.4 million, \$78.6 million and \$18.2 million, respectively, and were primarily related to NCRA for fiscal 2012 and 2011.

During the year ended August 31, 2013, changes in checks and drafts outstanding resulted in a decrease in cash flows of \$20.4 million. During the years ended August 31, 2012 and 2011 changes in checks and drafts outstanding resulted in increases in cash flows of \$6.4 million and \$63.0 million, respectively

In accordance with the bylaws and by action of the Board of Directors, annual net earnings from patronage sources are distributed to consenting patrons following the close of each fiscal year. Patronage refunds are calculated based on amounts using financial statement earnings. The cash portion of the patronage distribution is determined annually by the Board of Directors, with the balance issued in the form of qualified and non-qualified capital equity certificates. Consenting patrons have agreed to take both the cash and qualified capital equity certificate portion allocated to them from our previous fiscal year's income into their taxable income, and as a result, we are allowed a deduction from our taxable income for both the cash distribution and the allocated qualified capital equity certificates, as long as the cash distribution is at least 20% of the total patronage distribution. For the years ended August 31, 2012 and August 31, 2011, 10% of earnings from patronage business was added to our capital reserves and the remaining 90% was primarily distributed during the second fiscal quarters of the years ended August 31, 2013 and August 31, 2012, respectively, totaling \$976.0 million and \$676.3 million, respectively. The cash portion of the distributions, deemed by the Board of Directors to be 35% for individual members and 40% for non-individual members was \$380.9 million and \$260.7 million for the years ended August 31, 2013 and August 31, 2012, respectively. During the year ended August 31, 2011, we distributed patronage refunds of \$402.4 million, of which the cash portion was \$141.5 million.

In accordance with the bylaws and by action of the Board of Directors, 10% of the earnings from patronage business for the year ended August 31, 2013 was added to our capital reserves and the remaining 90%, or approximately \$841.4 million, will be distributed as patronage in fiscal 2014, in the form of qualified and non-qualified equity certificates and cash. The cash portion of the qualified distribution, determined by the Board of Directors to be 40% for both individual members and non-individual members, is expected to be approximately \$284.8 million and is classified as a current liability on our August 31, 2013 Consolidated Balance Sheet in dividends and equities payable.

Redemptions of capital equity certificates approved by the Board of Directors are divided into two pools, one for non-individuals (primarily member cooperatives) who may participate in an annual retirement program for qualified equities held by them and another for individuals who are eligible for qualified equity redemptions at age 70 or upon death. In accordance with authorization from the Board of Directors, we expect total redemptions related to the year ended August 31, 2013, that will be distributed in fiscal 2014, to be approximately \$101.3 million. These expected distributions are classified as a current liability on the August 31, 2013 Consolidated Balance Sheet.

For the years ended August 31, 2013, 2012 and 2011, we redeemed in cash, qualified equities in accordance with authorization from the Board of Directors, in the amounts of \$193.4 million, \$145.7 million and \$61.2 million, respectively.

Our 8% Preferred Stock is listed on the NASDAQ under the symbol CHSCP. On August 31, 2013, we had 12,272,003 shares of 8% Preferred Stock outstanding with a total redemption value of approximately \$306.8 million, excluding accumulated dividends. The 8% Preferred Stock accumulates dividends at a rate of 8% per

year, which are payable quarterly. Dividends paid on the 8% Preferred Stock during the years ended August 31, 2013, 2012 and 2011, were \$24.5 million, \$24.5 million, and \$24.5 million, respectively. During the year ended August 31, 2013, we amended the terms of the 8% Preferred Stock to provide that it may not be redeemed at our option until July 18, 2023.

During September 2013, we issued 11,319,175 shares of our Class B Preferred Stock, with a total redemption value of \$283.0 million, excluding accumulated dividends. Our Class B Preferred Stock is listed on the NASDAQ under the symbol CHSCO and accumulates dividends at a rate of .07875 per year, which are payable quarterly. The Class B Preferred Stock may not be redeemed at our option until September 26, 2023.

Off Balance Sheet Financing Arrangements

Lease Commitments:

We are committed under operating lease agreements for approximately 2,600 rail cars with remaining terms of one to thirteen years. In addition, we have commitments under other operating leases for various refinery, manufacturing and transportation equipment, vehicles and office space. Some leases include purchase options at not less than fair market value at the end of the lease terms.

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Total rental expense for all operating leases was \$81.5 million, \$74.6 million and \$66.2 million for the years ended August 31, 2013, 2012 and 2011, respectively.

Minimum future lease payments required under noncancelable operating leases as of August 31, 2013 were as follows:

	Total (Dollars in thousands)
2014	\$77,846
2015	64,068
2016	53,968
2017	42,560
2018	27,615
Thereafter	43,725
Total minimum future lease payments	\$309,782

Guarantees:

We are a guarantor for lines of credit and performance obligations of related companies. Our bank covenants allow maximum guarantees of \$1.0 billion, of which \$39.8 million was outstanding on August 31, 2013. 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 August 31, 2013.

Debt:

There is no material off balance sheet debt.

Contractual Obligations

We had certain contractual obligations at August 31, 2013, which require the following payments to be made:

	Payments Due by Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
	(Dollars in thousands)				
Long-term debt (1)	\$1,450,421		\$294,241	\$311,935	\$844,245
Interest payments (2)	460,341	\$79,734	131,305	96,876	152,426
Operating leases	309,782	77,846	118,036	70,175	43,725
Purchase obligations (3)	5,877,957	5,162,408	328,080	100,161	287,308
Mandatorily redeemable noncontrolling interests (4)	218,588		218,588		
Accrued liability for contingent crack spread payments related to purchase of noncontrolling interests (1) (5)	134,133		40,957	93,176	
Other liabilities (6)	59,947		30,049	16,214	13,684
Total obligations	\$8,511,169	\$5,319,988	\$1,161,256	\$688,537	\$1,341,388

(1) Included on our Consolidated Balance Sheet at August 31, 2013.

(2) Based on interest rates and long-term debt balances at August 31, 2013.

(3) Purchase obligations are legally binding and enforceable agreements to purchase goods or services that specify all significant terms, including fixed or minimum quantities; fixed, minimum or variable price provisions; and time of the transactions.

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- (4) The present value, totaling \$209.4 million, of the future payments is recorded on our Consolidated Balance Sheet.
- (5) Based on estimated fair value at August 31, 2013.
- Other liabilities include the long-term portion of deferred compensation and contractual redemptions. Of
- (6) our total other liabilities on our Consolidated Balance Sheet at August 31, 2013, in the amount of \$906.3 million, the timing of the payments of \$725.3 million of such liabilities cannot be determined.

Critical Accounting Policies

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

Inventory Valuation and Reserves

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

Derivative Financial Instruments

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

risk that the counterparty will refuse to perform on a contract during periods of price fluctuations where contract prices are significantly different than the current market prices.

Pension and Other Postretirement Benefits

Pension and other postretirement benefits costs and obligations are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, health care cost trend rates, benefits earned, interest costs, expected return on plan assets, mortality rates and other factors. In accordance with U.S. GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expenses and the recorded obligations in future periods. While our management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect our pension and other postretirement obligations and future expenses.

Deferred Tax Assets and Uncertain Tax Positions

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

Tax benefits related to uncertain tax positions are recognized in our financial statements if it is more likely than not that the position would be sustained upon examination by a tax authority that has full knowledge of all relevant information. The benefits are measured using a cumulative probability approach. Under this approach, we record in our financial statements the greatest amount of tax benefits that have a more than 50% probability of being realized upon final settlement with the tax authorities. In determining these tax benefits, we assign probabilities to a range of outcomes that we feel we could ultimately settle on with the tax authorities using all relevant facts and information available at the reporting date. Due to the complexity of these uncertainties, the ultimate resolution may result in a benefit that is materially different than our current estimate.

Long-Lived Assets

Property, plant and equipment is depreciated or amortized over the expected useful lives of individual or groups of assets based on the straight-line method. Economic circumstances, or other factors, may cause management's estimates of expected useful lives to differ from actual.

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

We have asset retirement obligations with respect to certain of our refineries and related assets due to various legal obligations to clean and/or dispose of various component parts at the time they are retired. However, these assets can be used for extended and indeterminate periods of time, as long as they are properly maintained and/or upgraded. It is our practice and current intent to maintain refinery and related assets and to continue making improvements to those assets based on technological advances. As a result, we believe that our refineries and related assets have indeterminate lives for purposes of estimating asset retirement obligations because dates or ranges of dates upon which we would retire a refinery and related assets cannot reasonably be estimated at this time. When a date or range of dates can reasonably be estimated for the retirement of any component part of a refinery or related asset, we will estimate the cost of performing the retirement activities and record a liability for the fair value of that cost using established present value techniques.

Effect of Inflation and Foreign Currency Transactions

We believe that inflation and foreign currency fluctuations have not had a significant effect on our operations during the three years ended August 31, 2013 since we conduct a significant portion of our business in U.S. dollars.

Recent Accounting Pronouncements

In December 2011, the FASB issued Accounting Standards Update (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 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

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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 July 2013, the FASB issued ASU No. 2013-11, "Income Taxes (Topic 740) — Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." ASU No. 2013-11 provides guidance on the presentation of unrecognized tax benefits that will better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 and early adoption is permitted. We do not expect the adoption of this guidance will have a material impact on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

COMMODITY PRICE RISK

When we enter into a commodity or freight purchase or sales contract, we incur risks related to price change and performance (including delivery, quality, quantity and counterparty credit). We are exposed to risk of loss in the market value of positions held, consisting of inventory and purchase contracts at a fixed or partially fixed price in the event market prices decrease. We are also exposed to risk of loss on our fixed or partially fixed price sales contracts in the event market prices increase.

Our hedging activities reduce the effects of price volatility, thereby protecting against adverse short-term price movements, but also limit the benefits of short-term price movements. To reduce the price change risks associated with holding fixed price commitments, we generally take opposite and offsetting positions by entering into commodity futures contracts or options, to the extent practical, in order to arrive at a net commodity position within the formal position limits we have established and deemed prudent for each commodity. These contracts are purchased and sold on regulated commodity futures exchanges for grain, and regulated mercantile exchanges for refined products and crude oil. We also use over-the-counter (OTC) instruments to hedge our exposure to price fluctuations on commodities and fixed price arrangements. The price risk we encounter for crude oil and most of the grain and oilseed volume we handle can be hedged. Price risk associated with fertilizer and certain grains cannot be hedged with futures because there are no futures for these commodities and, as a result, risk is managed through the use of forward sales contracts and other pricing arrangements and, to some extent, cross-commodity futures hedging. These contracts are economic

hedges of price risk, but are not designated as hedging instruments for accounting purposes. The contracts are recorded on our Consolidated Balance Sheets at fair values based on quotes listed on regulated commodity exchanges or are based on the market prices of the underlying products listed on the exchanges, with the exception of certain fertilizer and propane contracts, which are accounted for as normal purchase and normal sales transactions. Unrealized gains and losses on these contracts are recognized in cost of goods sold in our Consolidated Statements of Operations using market-based prices.

When a futures contract is entered into, an initial margin deposit must be sent to the applicable exchange or broker. The amount of the deposit is set by the exchange and varies by commodity. If the market price of a short futures contract increases, then an additional maintenance margin deposit would be required. Similarly, if the price of a long futures contract decreases, a maintenance margin deposit would be required and sent to the applicable exchange. Subsequent price changes could require additional maintenance margins or could result in the return of maintenance margins.

Our policy is to primarily maintain hedged positions in grain and oilseed. Our profitability from operations is primarily derived from margins on products sold and grain merchandised, not from hedging transactions. At any one time, inventory and purchase contracts for delivery to us may be substantial. We have risk management policies and procedures that

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include net position limits. These limits are defined for each commodity and include both trader and management limits. This policy and computerized procedures in our grain marketing operations require a review by operations management when any trader is outside of position limits and also a review by our senior management if operating areas are outside of position limits. A similar process is used in our energy and wholesale crop nutrients operations. The position limits are reviewed, at least annually, with our management and Board of Directors. We monitor current market conditions and may expand or reduce our net position limits or procedures in response to changes in those conditions. In addition, all purchase and sales contracts are subject to credit approvals and appropriate terms and conditions.

Hedging arrangements do not protect against nonperformance by counterparties to contracts. We primarily use exchange traded instruments, which minimizes our counterparty exposure. We evaluate that exposure by reviewing contracts and adjusting the values to reflect potential nonperformance. Risk of nonperformance by counterparties includes the inability to perform because of a counterparty's financial condition and also the risk that the counterparty will refuse to perform on a contract during periods of price fluctuations where contract prices are significantly different than the current market prices. We manage our risks by entering into fixed price purchase and sales contracts with preapproved producers and by establishing appropriate limits for individual suppliers. Fixed price contracts are entered into with customers of acceptable creditworthiness, as internally evaluated. Historically, we have not experienced significant events of nonperformance on open contracts. Accordingly, we only adjust the estimated fair values of specifically identified contracts for nonperformance. Although we have established policies and procedures, we make no assurances that historical nonperformance experience will carry forward to future periods.

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

INTEREST RATE RISK

Short-term debt used to finance inventories and receivables is represented by notes payable with maturities of 30 days or less, so that our blended interest rate for all such notes approximates current market rates. During the year ended August 31, 2013, we entered into interest rate swaps to secure the interest rates related to our private placement debt anticipated to be issued in April 2014 with combined notional amounts of \$300.0 million. These derivative instruments are designated as cash flow hedges for accounting purposes and, accordingly, the net gain associated with these contracts of \$24.1 million as of August 31, 2013 was recorded as a component of other comprehensive loss. CHS Capital, our wholly-owned finance subsidiary, has interest rate swaps that lock the interest rates of the underlying loans with a combined notional amount of \$8.6 million expiring at various times through fiscal 2018, with \$0.3 million of the notional amount expiring during fiscal 2014. None of CHS Capital's interest rate swaps qualify for hedge accounting and as a result, changes in fair value are recorded in earnings within interest, net in our Consolidated Statements of Operations. Long-term debt used to finance non-current assets carries various fixed interest rates and is payable at various dates to minimize the effects of market interest rate changes. The weighted-average interest rate on fixed rate debt outstanding on August 31, 2013 was approximately 5.0%.

The table below provides information about our outstanding debt and derivative financial instruments that are sensitive to changes in interest rates. For debt obligations, the table presents scheduled contractual principal payments and related weighted average interest rates for the fiscal years presented. For interest rate swaps, the table presents notional amounts for payments to be exchanged by expected contractual maturity dates for the fiscal years presented and interest rates noted in the table.

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Expected Maturity Date

	2014	2015	2016	2017	2018	Thereafter	Total	Fair Value Asset (Liability)
(Dollars in thousands)								
Liabilities:								
Variable rate miscellaneous short-term notes payable	\$521,864						\$521,864	\$(521,864)
Average interest rate	2.0	%					2.0	%
Variable rate CHS Capital short-term notes payable	\$367,448						\$367,448	\$(367,448)
Average interest rate	1.2	%					1.2	%
Fixed rate long-term debt	\$156,612	\$164,020	\$130,219	\$149,832	\$162,103	\$844,247	\$1,607,033	\$(1,608,350)
Average interest rate	5.8	% 6.0	% 6.0	% 5.7	% 5.1	% 4.3	% 5.0	%
Interest Rate Derivatives:								
Variable to fixed notes payable						\$300,000	\$300,000	\$24,135
interest rate swaps								
Average pay rate(a)						range		
Average receive rate(b)						3.57	%	
Variable to fixed CHS Capital notes payable	\$267	\$960	\$3,775		\$3,550		\$8,552	\$(244)
interest rate swaps								
Average pay rate(c)	range	range	range		range			
Average receive rate(d)	2.43	% 2.43	% 2.43	%	2.43	%		

(a) Two swaps for \$150.0 million each with rates of 2.33% and 2.54%

(b) Three month London Interbank Offered Rate (LIBOR) at August 31, 2013

(c) Swaps expiring in fiscal 2014 through fiscal 2018 (11 total) with a range of rates from 1.11% to 4.91%

(d) Average one month LIBOR for fiscal 2013

FOREIGN CURRENCY RISK

We conduct a significant portion of our business in U.S. dollars. Our Ag segment continued to expand its international operations in fiscal 2013 with planned future growth. We had minimal risk regarding foreign currency fluctuations during fiscal 2013 and in prior years, as a substantial amount of international sales were denominated in U.S. dollars. From time to time, we enter into foreign currency futures contracts to mitigate currency fluctuations. Foreign currency fluctuations do, however, impact the ability of foreign buyers to purchase U.S. agricultural products and the competitiveness of U.S. agricultural products compared to the same products offered by alternative sources of world supply. As of August 31, 2013, \$7.1 million associated with foreign currency contracts was included in derivative assets and \$5.9 million included in derivative liabilities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements listed in Item 15(a)(1) are set forth beginning on page F-1. Financial statement schedules are included in Schedule II in Item 15(a)(2). Supplementary financial information required by Item 302 of Regulation S-K for each quarter during the fiscal years ended August 31, 2013 and 2012 is presented below.

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	August 31, 2013 (Unaudited) (Dollars in thousands)	May 31, 2013	February 29, 2013	November 30, 2012
Revenues	\$10,950,985	\$11,936,556	\$9,882,378	\$11,709,938
Gross profit	300,576	456,911	470,647	545,518
Income before income taxes	125,233	279,476	299,387	381,898
Net income	122,600	252,329	275,518	345,881
Net income attributable to CHS Inc.	122,797	250,796	275,086	343,707
	August 31, 2012 (Unaudited) (Dollars in thousands)	May 31, 2012	February 29, 2012	November 30, 2011
Revenues	\$10,998,360	\$11,022,955	\$8,843,812	\$9,734,159
Gross profit	523,303	616,256	231,577	640,007
Income before income taxes	355,148	440,718	89,858	530,847
Net income	360,884	406,718	79,235	488,882
Net income attributable to CHS Inc.	360,888	405,062	78,470	416,208

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure of Controls and Procedures:

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding disclosure. In designing and evaluating our disclosure procedures, we recognize that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives and we necessarily are required to apply our judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of August 31, 2013. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures were effective, at the reasonable assurance level, as of August 31, 2013, the end of the period covered in this Annual Report on Form 10-K.

Management's Annual Report on Internal Control Over Financial Reporting:

The financial statements, financial analyses and all other information included in this Annual Report on Form 10-K were prepared by our management, which is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: pertain

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to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and our dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition and use or disposition of our assets that could have a material effect on the financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

Management assessed the design and operating effectiveness of our internal control over financial reporting as of August 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework. Based on management's assessment using this framework, we believe that, as of August 31, 2013, our internal control over financial reporting is effective.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to the Financial Reform Bill passed in July 2010, that permits us to provide only management's report in this Annual Report on Form 10-K.

Change in Internal Control over Financial Reporting:

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

ITEM 9B. OTHER INFORMATION

New Employment Agreement

On November 6, 2013, we entered into an Employment Agreement (the "New Employment Agreement") with Carl M. Casale, to be effective as of January 1, 2014 (the "Effective Date"), setting forth the terms pursuant to which Mr. Casale will serve as our Chief Executive Officer commencing on the Effective Date. The existing Employment Agreement between us and Mr. Casale dated as of November 22, 2010 (the "Existing Employment Agreement") ends on December 31, 2013 and will be replaced by the New Employment Agreement as of the Effective Date.

The New Employment Agreement has an initial term of three years ending on January 1, 2017, provided that beginning on January 1, 2017 and on each anniversary date thereafter, the term will be automatically renewed for an additional one-year period unless either party notifies the other in writing, at least sixty days in advance of the relevant anniversary date, of its intent not to renew for the additional one-year period. Pursuant to the New Employment Agreement, Mr. Casale will be entitled to:

- an annual base salary of \$990,000, subject to increase by our Board of Directors from time to time;
-

earn a target annual incentive compensation award, beginning with the 2014 fiscal year, of 125% of his base salary with a maximum potential annual incentive compensation award of 250% of his base salary, based on the achievement of performance targets set by our Board;

earn a target long-term incentive compensation award of 125% of his average base salary during the three-year performance period applicable to such award opportunity, with a maximum superior performance potential long-term incentive compensation award of 500% of his average base salary during the three-year performance period applicable to such award;

participate in all employee benefit plans and programs and maintained by us and made available to employees generally, and all executive benefit plans maintained by us and made available to our senior executives generally, in each case to the extent he is eligible under the terms of such plans; and
certain fringe benefits as determined by our Board.

The New Employment Agreement includes a clawback provision providing that if there is a restatement of our financial results (other than a prophylactic or voluntary restatement due to a change in applicable accounting rules or

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interpretations) due to material noncompliance with financial reporting requirements and the Board determines in good faith that any compensation granted to Mr. Casale was awarded or determined based on such material noncompliance, the Board or a committee thereof may recover any compensation granted to Mr. Casale (or reduce any compensation not yet paid) based on the erroneous financial data in excess of what would have been paid (or in the case of unpaid compensation, what should be paid) to Mr. Casale under the accounting restatement.

In the event of Mr. Casale's involuntary termination without "cause" (as defined in the New Employment Agreement) or voluntary termination with "Good Reason" (as defined in the New Employment Agreement), Mr. Casale will be entitled to accrued and unpaid compensation as provided in the New Employment Agreement as well as the following severance pay and benefits, conditioned on the execution of a release and his compliance with certain restrictive covenants: (1) the annual incentive compensation he would have been entitled to receive for the year in which his termination occurs as if he had continued until the end of that fiscal year, determined based on our actual performance for that year relative to our performance goals applicable to Mr. Casale (with that portion of the annual incentive compensation based on completion or partial completion of previously specified personal goals equal to 30% of the target annual incentive), prorated for the number of days in the fiscal year through his termination date and payable in a cash lump sum generally payable at the time such incentive awards are payable to other participants; (2) two times Mr. Casale's base salary plus two times his target annual incentive, payable in three equal installments with the first payable 60 days following termination and the second and third payable on the first and second anniversaries of such termination, respectively; and (3) welfare benefit continuation for two years following termination. In the event of Mr. Casale's involuntary termination for "cause" or voluntary termination without "Good Reason," Mr. Casale will be entitled to accrued and unpaid compensation as provided in the New Employment Agreement.

Mr. Casale will be subject to two-year non-competition and non-solicitation covenants following his termination of employment. We will reimburse Mr. Casale's legal expenses up to \$25,000 in connection with the negotiation of the Employment Agreement.

The foregoing description of the New Employment Agreement is not complete and is qualified in its entirety by reference to the New Employment Agreement, which is filed as Exhibit 10.1B to this Annual Report on Form 10-K and is incorporated herein by reference.

New Change in Control Agreement

Also on November 6, 2013, we and Mr. Casale entered into an Amended and Restated Change in Control Agreement (the "New Change in Control Agreement"), to be effective as of January 1, 2014 and which will replace and supersede our Change in Control Agreement with Mr. Casale dated as of November 22, 2010. The New Change in Control has a term of one year ending on January 1, 2015, provided that beginning on January 1, 2015 and on each anniversary date thereafter, the term will be automatically renewed for an additional one-year period unless either party notifies the other in writing, at least sixty days in advance of the relevant anniversary date, of its intent not to renew for the additional one-year period.

Under the New Change in Control Agreement, upon a "Qualifying Termination" Mr. Casale will be entitled to the following, conditioned on the execution of a release and subject to offset by the amount of any severance previously paid to him under any employment agreement with us: (1) a lump sum severance payment equal to 2.5 times the sum of his base salary and target annual incentive compensation award, (2) welfare benefit continuation for a period of 30 months, (3) certain post-retirement health care or life insurance benefits if Mr.

Casale would have become eligible for such benefits during the 30 months after the date of termination, (4) a lump sum payment equal to all earned but unused paid time off days, and (5) outplacement fees not to exceed \$30,000. In addition, any amounts paid under the New Change in Control Agreement will be reduced to the maximum amount that can be paid without being subject to the excise tax imposed under Internal Revenue Code Section 280G, but only if the after-tax benefit of the reduced amount is higher than the after-tax benefit of the unreduced amount. For purposes of Mr. Casale's New Change in Control Agreement, a "Qualifying Termination" means an involuntary termination without cause and voluntary termination with "Good Reason", each within 24 months following a change in control, or an involuntary termination without cause within 6 months prior to a change in control if termination is related to the change in control. "Good Reason" generally means the assignment of duties or responsibilities that are materially inconsistent with Mr. Casale's duties or responsibilities before the change of control, a material diminution in authority, duties or responsibilities, a 10% or more reduction in annual base salary, the material breach by us of any obligation under the New Change in Control Agreement, our failure to continue Mr. Casale's participation in any material compensation plan on a basis not materially less favorable to him and the failure to continue to provide him with benefits substantially similar in the aggregate to those he enjoyed prior to a change in control.

The New Change in Control Agreement also provides for certain non-severance payments to Mr. Casale if he fails to perform his full-time duties as a result of a disability (as defined in the New Change in Control Agreement). In such a case, we

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will pay his current base salary and all compensation and benefits payable to him under any compensation or benefit plan we maintain during that period, until he is terminated. Additionally, if Mr. Casale is terminated for any reason following a “change in control” and during the term of the New Change in Control Agreement, we will pay his base salary through the date of termination and all compensation and benefits to which he is entitled for all periods preceding the date of termination under the terms of our compensation and benefit plans.

Mr. Casale will be subject to two-year non-competition and non-solicitation covenants following his termination of employment.

The foregoing description of the New Change in Control Agreement is not complete and is qualified in its entirety by reference to the New Change in Control Agreement, which is filed as Exhibit 10.2B to this Annual Report on Form 10-K and is incorporated herein by reference.

Letter Agreement

Also on November 6, 2013, we entered into a succession planning letter agreement (the “Letter Agreement”) with John McEnroe, our Executive Vice President and Chief Operating Officer of Country Operations, under which he will be eligible to receive an incentive equal to one year’s base salary upon completion of an agreed upon succession plan, which includes the effective training and development of strong successors to his leadership team, an efficient and effective transition of his responsibilities at the time of his retirement to a successor candidate, and the successful performance of his duties and responsibilities through his retirement.

The foregoing description of the Letter Agreement is not complete and is qualified in its entirety by reference to the Letter Agreement, which is filed as Exhibit 10.55 to this Annual Report on Form 10-K and is incorporated herein by reference.

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PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

BOARD OF DIRECTORS

The table below lists our directors as of August 31, 2013.

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Name and Address	Age	Director Region	Since
Donald Anthony 43970 Road 758 Lexington, NE 68850-3745	63	8	2006
Robert Bass E 6391 Bass Road Reedsburg, WI 53959	59	5	1994
David Bielenberg 16425 Herigstad Road NE Silverton, OR 97381	64	6	2009
Clinton J. Blew 16304 S. Fall Street Hutchinson, KS 67501	36	8	2010
Dennis Carlson 3152 — 51st Street Mandan, ND 58554	52	3	2001
Curt Eischens 2153 — 330th Street North Minnesota, MN 56264-1880	61	1	1990
Jon Erickson 17503 — 46th Street SW Minot, ND 58701	53	3	2011
Steve Fritel 2851 — 77th Street NE Barton, ND 58384	58	3	2003
Jerry Hasnedl 12276 — 150th Avenue SE St. Hilaire, MN 56754 -9776	67	1	1995
David Johnsrud 17263 300 Avenue Starbuck, MN 56381	59	1	2012
David Kayser 42046 — 257th Street Alexandria, SD 57311	54	4	2006
Randy Knecht 40193 — 112th Street Houghton, SD 57449	63	4	2001
Greg Kruger N 49494 County Road Y Eleva, WI 54738	54	5	2008
Edward Malesich 9575 MT Highway 41C Dillon, MT 59725	60	2	2011
Steve Riegel 12748 Ridge Road Ford, KS 67842	61	8	2006
Daniel Schurr	48	7	2006

3009 Wisconsin Street
LeClaire, IA 52753

The qualifications for our Board of Directors are listed below under “Director Elections and Voting”. In general, our directors operate large commercial agricultural enterprises requiring expertise in all areas of management, including financial

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oversight. They also have experience in serving on local cooperative association boards, and participate in a variety of agricultural and community organizations. Our directors complete the National Association of Corporate Directors comprehensive Director Professionalism course, and earn the Certificate of Director Education.

Donald Anthony (2006): Chairs CHS Foundation Finance and Investment Committee and serves on Audit Committee. Chaired the Nebraska Beginning Farmer Board for the last 5 years and has been the 3rd District producer representative for 10 years. Served as director and chairman for All Points Cooperative of Gothenburg, Neb., and Lexington (Neb.) Co-op Oil. Former director of Farmland Industries. Holds a bachelor's degree in agricultural economics from the University of Nebraska. Raises corn, soybeans and alfalfa near Lexington, Neb. Mr. Anthony's principal occupation has been farming for the last five years or longer.

Robert Bass (1994): Serves on Audit and CHS Foundation Finance and Investment Committees. Served as first vice chairman and on Capital Committee. Served as director and officer for the former Co-op Country Partners Cooperative, Baraboo, Wis., and its predecessors for 15 years, including seven years as chairman. Served as director for Cooperative Network, including three years as vice chairman. Holds a bachelor's degree in agricultural education from the University of Wisconsin — Madison. Operates a crop and dairy operation near Reedsburg, Wis. Mr. Bass' principal occupation has been farming for the last five years or longer.

David Bielenberg, chairman (elected in 2009; chairman since 2012): Chairs Executive Committee. Served as assistant secretary-treasurer, chaired the Audit Committee and served on Government Relations Committee. Previously served on the CHS Board of Directors from 2002-2006. Serves on Nationwide Insurance Board Council. Chair of the East Valley Water District and former director and board president for Wilco Farmers Cooperative, Mount Angel, Ore. Active in a broad range of agricultural and cooperative organizations. Holds a bachelor's of science degree in agricultural engineering from Oregon State University and is a graduate of Texas A & M University executive program for agricultural producers. Operates a diverse agricultural business near Silverton, Ore., including seed crops, vegetables, soft white wheat, greenhouse plant production and timberland. Mr. Bielenberg's principal occupation has been farming for the last five years or longer.

Clinton J. Blew (2010): Serves on Governance and CHS Foundation Finance and Investment Committees. Chair of the Mid Kansas Coop (MKC), Moundridge, Kan. Served on 2010 CHS Resolutions Committee and holds a position on the Hutchinson Community College Ag Advisory Board. Past director of Reno County Cattlemen's Board. Attended the CHS New Leader Institute. Member of Kansas Livestock Association, Texas Cattle Feeder's Association and Red Angus Association of America. Holds an applied science degree in farm and ranch management from Hutchinson Community College. Farms in a family partnership that includes irrigated corn and soybeans, dry land wheat, milo and soybeans, and a commercial cow/calf business. Mr. Blew's principal occupation has been farming for the last five years or longer.

Dennis Carlson, first vice chairman (2001): Chairs Capital Committee and serves as first vice chairman of the Executive Committee. Served as second vice chairman, chairman of CHS Foundation Finance and Investment Committee, and as a member of the Executive Committee. Former director and past chairman of Farmers Union Oil Company, Bismarck/Mandan, N.D. Raises wheat, sunflowers and soybeans. Mr. Carlson's principal occupation has been farming for the last five years or longer.

Curt Eischens, assistant secretary-treasurer (1990): Chairs Corporate Responsibility Committee and is assistant-secretary of the Executive Committee. Served as second vice chairman and as a member of the CHS Foundation Finance and Investment Committee. Serves as a director of Farmers Co-op Association, Canby, Minn., previous chairman and serves as vice chairman for Cooperative Network. Holds a certificate in farm

management from Canby Vocational-Technical College. Operates a corn and soybean farm near Minneota, Minn. Mr. Eischens' principal occupation has been farming for the last five years or longer.

Jon Erickson (2011): Serves on Capital and Government Relations Committees. Served on Governance Committee. Past chairman of Enerbase and is active in a wide range of agricultural community organizations. Holds a bachelor's degree in agricultural economics from North Dakota State University. Raises grains and oilseeds and operates a commercial Hereford/Angus cow-calf business near Minot, N.D. Mr. Erickson's principal occupation has been farming for the last five years or longer.

Steve Fritel, second vice chairman (2003): Serves as chairman of Governance Committee and as second vice chair of Executive Committee. Served as secretary-treasurer and on Executive, Capital, Governance, Corporate Responsibility, and Government Relations Committees. Director for Rugby (ND) Farmers Union Oil Co., former director and chairman for Rugby Farmers Union Elevator, and previous member of the former CHS Wheat Milling Defined Member Board. Currently a director of Envision. Former director of North Central Experiment Station Board of Visitors and North Dakota Farm and Ranch

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Business Management Advisory Board and member of numerous agricultural and cooperative organizations. Earned an associate's degree from North Dakota State College of Science, Wahpeton, N.D. Raises spring wheat, barley, soybeans, edible beans and confection sunflower near Rugby, N.D. Mr. Fritel's principal occupation has been farming for the last five years or longer.

Jerry Hasnedl (1995): Serves on Government Relations and Governance Committees. Previously served as chairman, secretary-treasurer, and as chair of the Executive, CHS Foundation, and Capital Committees. Previous chairman of the former CHS Wheat Milling Defined Member Board. Serves on the Cooperative Network Board. Former director and secretary for St. Hilaire (Minn.) Cooperative Elevator and Northwest Grain. Member of American Coalition for Ethanol and Cooperative Network and serves on Minnesota Sunflower Research and Promotion Council. Earned associate's degree in agricultural economics and has certification in advanced farm business management from Northland College, Thief River Falls, Minn. Operates a diverse operation near St. Hilaire, Minn., which includes small grains, soybeans, corn, sunflowers, malting barley, canola and alfalfa. Mr. Hasnedl's principal occupation has been farming for the last five years or longer.

David Johnsrud (2012): Serves as a member of the Government Relations and Corporate Responsibility Committees. Serves as director and chairman for AgCountry Farm Credit Services. Serves on the Minnesota Farm Credit Legislative Committee, with three years as chairman. Served on the Farmers Union Oil and Prairie Lake Coop boards of directors, with 15 years as board secretary. Johnsrud served on the Mid-Minnesota Association Board, with terms as secretary and chairman, as well as on the State Directors' Association, with terms as treasurer. Served on the CHS Annual Meeting Credentials Committee in 2000 and 2001 and on the Resolutions Committee in 2002 and 2003. In 2010 he completed the Farm Credit Services Premier Governance Series and became a Certified Director and is a 2010 graduate of Minnesota Agricultural Rural Leadership Class V. Johnsrud farms in partnership with his brother and nephew. Mr. Johnsrud's principal occupation has been farming for the last five years or longer.

David Kayser (2006): Serves on Corporate Responsibility and CHS Foundation Finance and Investment Committees. Past chairman of South Dakota Association of Cooperatives and previously served on CHS Resolutions Committee. Former director and chairman for Farmer's Alliance, Mitchell, S.D. Raises corn, soybeans and hay near Alexandria, S.D., and operates a cow-calf and feeder calf business. Mr. Kayser's principal occupation has been farming for the last five years or longer.

Randy Knecht (2001): Serves on Government Relations and Capital Committees. Served as assistant secretary-treasurer, and chaired Governance and Government Relations Committees. Previously served on boards of the American Coalition for Ethanol and Four Seasons Cooperative, Britton, S.D., and former director and chairman of Northern Electric Cooperative and director of Dakota Value Capture Cooperative. Holds a bachelor's degree in agriculture from South Dakota State University. Operates a diversified crop farm and cattle ranch near Houghton, S.D. Mr. Knecht's principal occupation has been farming for the last five years or longer.

Greg Kruger (2008): Serves on Audit and Government Relations Committees. Served on Capital Committee. Director, and previous chairman, of Countryside Cooperative, Durand, Wis., since its creation in 1998. Served two years each on the CHS Resolutions and CHS Rules and Credentials Committees. Serves a wide range of agricultural and local government roles, including as president of Trempealeau County Farm Bureau and chairman of the local Land Use Planning Committee. Operates an 80-cow dairy and crop enterprise near Eleva, Wis. Mr. Kruger's principal occupation has been farming for the last five years or longer.

Edward Malesich (2011): Serves on Government Relations and Corporate Responsibility Committees. Served 12 years on the board of Rocky Mountain Supply Inc., Belgrade, Mont., and 18 years on one of its predecessor cooperatives. Has served for 13 years on the board of Northwest Farm Credit Services. Holds a bachelor's degree in agricultural production from Montana State University. Raises Angus cattle, wheat, malt barley and hay near Dillon, Mont. Mr. Malesich's principal occupation has been farming for the last five years or longer.

Steve Riegel (2006): Serves as chairman of Government Relations Committee and on Governance Committee. Served on Corporate Responsibility and Capital Committees. Director and former chairman of Pride Ag Resources, Dodge City (Kan.) and previously served as director and officer for Ford-Kingsdown Cooperative and Co-op Service, Inc. Advisory director for Bucklin (Kan.) National Bank, and has served on local school board. Attended Fort Hays (Kan.) State University, majoring in agriculture, business and animal science. Raises irrigated corn, soybeans, alfalfa, dryland wheat and milo near Ford, Kan. Mr. Riegel's principal occupation has been farming for the last five years or longer.

Daniel Schurr, secretary treasurer (2006): Serves on Executive Committee and is chairman of Audit Committee. Previously served as first vice chairman and on Government Relations and Corporate Responsibility Committees. Serves on Blackhawk Bank and Trust board and audit and trust committees. Served as director and officer for River Valley Cooperative of

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Mt. Joy, Iowa. Served eight years as director of Great River Bank and Trust. Former local school board member and active in numerous agricultural and community organizations. Named Iowa Jaycees Outstanding Young Farmer in 2004. Holds bachelor's degree in agricultural business from Iowa State University. Raises corn, soybeans, alfalfa and feed cattle near LeClaire, Iowa. Also owns a heavy equipment repair business in Bettendorf, Iowa. Mr. Schurr's principal occupation has been farming for the last five years or longer.

Director Elections and Voting

Director elections are for three-year terms and are open to any qualified candidate. The qualifications for the office of director are as follows:

At the time of declaration of candidacy, the individual (except in the case of an incumbent) must have the written endorsement of a locally elected producer board that is part of the CHS system and located within the region from which the individual is to be a candidate.

At the time of the election, the individual must be less than the age of 68.

The remaining qualifications set forth below must be met at all times commencing six months prior to the time of election and while the individual holds office:

The individual must be a member of this cooperative or a member of a Cooperative Association Member.

The individual must reside in the region from which he or she is to be elected.

The individual must be an active farmer or rancher. "Active farmer or rancher" means an individual whose primary occupation is that of a farmer or rancher, excluding anyone who is an employee of ours or of a Cooperative Association Member.

The following positions on the Board of Directors will be up for re-election at the 2013 Annual Meeting of Members:

Region	Current Incumbent
Region 1 (Minnesota)	vacated by Michael Toelle (1)
Region 3 (North Dakota)	Dennis Carlson
Region 4 (South Dakota)	Randy Knecht
Region 5 (Wisconsin, Connecticut, Delaware, Illinois, Indiana, Kentucky, Ohio, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia)	Robert Bass
Region 8 (Colorado, Nebraska, Kansas, New Mexico, Oklahoma, Texas)	Steve Riegel

(1) Mr. Toelle resigned during fiscal 2013.

Voting rights, including those in regard to director elections, arise by virtue of membership in CHS, not because of ownership of any equity or debt instruments; therefore, our preferred stockholders cannot recommend nominees to our Board of Directors unless they are members of CHS.

EXECUTIVE OFFICERS

The table below lists our executive officers as of August 31, 2013. Officers are appointed by the Board of Directors.

Name	Age	Position
Carl Casale	52	President and Chief Executive Officer
Shirley Cunningham	53	Executive Vice President, Enterprise Strategy

Jay Debertin	53	Executive Vice President and Chief Operating Officer, Energy and Foods
Lynden Johnson	53	Executive Vice President, Business Solutions
John McEnroe	58	Executive Vice President, Country Operations
Mark Palmquist	56	Executive Vice President and Chief Operating Officer, Ag Business
Timothy Skidmore	52	Executive Vice President and Chief Financial Officer
Lisa Zell	45	Executive Vice President and General Counsel

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Carl Casale, President and Chief Executive Officer (CEO), joined CHS in 2011. Previously spent 26 years with Monsanto Company, beginning his career as a sales representative in eastern Washington and advancing through sales, strategy, marketing and technology-related positions before being named Chief Financial Officer in 2009. Serves on the boards of National Cooperative Refinery Association; Ventura Foods, LLC; Ecolab Inc.; National Council of Farmer Cooperatives; Greater Twin Cities United Way; and Minnesota Business Partnership. Previously served on the boards of Nalco Company and the National 4-H Council. Named Oregon State University College of Agriculture's 2009 alumni fellow. Holds a bachelor's degree in agricultural economics from Oregon State University and an executive master's of business administration from Washington University, St. Louis, Mo. Native of Oregon's Willamette Valley. Operates a family-owned blueberry farm near Aurora, Oregon.

Shirley Cunningham, Executive Vice President — Enterprise Strategy, joined CHS in 2013. Previously served as chief information officer for Monsanto Company and has more than 25 years experience in information technology and business management including leading global IT operations, acquisitions, IT research and development, strategic planning and enterprise initiatives. Serves on the Washington University School of Engineering board and the St. Louis children's museum, The Magic House board. Previously served on the AT&T advisory board. Holds a master's of business administration degree from Washington University, St. Louis, Missouri.

Jay Debertin, Executive Vice President and Chief Operating Officer — Energy and Foods, joined CHS in 1984 in the energy division and held positions in energy marketing operations. Named vice president of crude oil supply in 1998, and added responsibilities for raw material supply, refining, pipelines and terminals, trading and risk management, and transportation in 2001. He was named executive vice president, Processing, in 2005 and was responsible for CHS soybean crushing, refining and related operations, along with food processing joint venture relationships. Named to his current position in January 2011, where he is responsible for energy operations, including refineries, pipelines and terminals; refined fuels, propane, lubricants and renewable fuels distribution; and marketing businesses. Also responsible for CHS vegetable oil-based foods through Ventura Foods, LLC. Responsible for CHS strategic direction in renewable energy. Serves as chairman for National Cooperative Refinery Association and as a director for Ventura Foods, LLC. Former board member of Horizon Milling, LLC and US BioEnergy Corporation. Earned a bachelor's degree in economics from the University of North Dakota and a master's of business administration degree from the University of Wisconsin — Madison.

Lynden Johnson, Executive Vice President — Business Solutions, is responsible for board planning and administration, Corporate Citizenship and the CHS Foundation, and CHS Aligned Solutions, along with subsidiaries CHS Insurance Group, CHS Hedging Inc. and CHS Capital. Before assuming his current role in January 2012, Johnson was named senior vice president, Business Solutions, in January 2011. He served as the vice president of Business Solutions Consulting in 2008 and previously held the position of vice president, Member Services since 2005. Prior to joining CHS, he had a career managing cooperatives in North Dakota and Minnesota for 23 years. Serves as a board member for the CHS Pension Plan and is a fiduciary board member for the Co-op 401K Committee. Serves on the board of directors of CHS Insurance Group, CHS Capital and CHS Hedging. Holds a bachelor's degree in agricultural economics from North Dakota State University.

John McEnroe, Executive Vice President — Country Operations, joined CHS in 1979. He progressed through a variety of grain marketing and retail management positions, including being named regional director in 1984, vice president in 2000, senior vice president of Country Operations in 2003 and assumed his current role in January 2012. Serves on the boards of the National Cooperative Refinery Association, CHS Capital, as well

as numerous boards of CHS Country Operations partners. Serves as executive committee member of the Grain Elevator and Processing Society. Pursued a bachelor's degree in political science from the University of North Dakota.

Mark Palmquist, Executive Vice President and Chief Operating Officer — Ag Business, is responsible for all international ag-related business units, including crop nutrients, grain marketing, terminal operations, exports, logistics and transportations and soybean processing operations. Joined the former Harvest States in 1979 as a grain buyer, and then moved into grain merchandising. Named vice president and director of grain marketing in 1990 and senior vice president in 1993. Assumed leadership responsibility for grain marketing, country operations, processing and food ingredients and packaged foods in 2001 and his current responsibilities in January 2012. Serves on the board of Horizon Milling, LLC. Former board member of InTrade/ACTI, National Cooperative Refinery Association, Schnitzer Steel Industries, Inc. and Multigrain AG. Holds a bachelor's degree in business from Gustavus Adolphus College, St. Peter, Minnesota, and attended the University of Minnesota MBA program.

Timothy Skidmore, Executive Vice President and Chief Financial Officer, joined CHS in 2013 and is responsible for finance, accounting, strategic sourcing and insurance risk management. Previously served as vice president of finance and strategy for Campbell North America, Campbell's largest operating division. Joined Campbell as assistant treasurer in 2001 and held numerous leadership positions in finance including leading the cash management, corporate finance and international

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treasury functions. Served in various business unit CFO roles including the U.S. soup, simple meals, beverages and international businesses where he was responsible for financial strategy, planning, reporting and balance sheet management. Prior to joining Campbell, spent 15 years at DuPont Co., holding a variety of financial leadership positions, including leading DuPont's finance function across Asia Pacific. Holds a bachelor's degree in risk management from the University of Georgia, and a Master of Business Administration degree in finance from Widener University, Chester, Pennsylvania.

Lisa Zell, Executive Vice President and General Counsel, joined CHS in 1999 as senior attorney after several years in private practice and a federal clerkship with the U.S. Court of Appeals Seventh Circuit. Named senior vice president and general counsel in January 2011 and assumed current position in January 2012. Serves on the board of Ventura Foods, LLC, and is chairperson of its Corporate Responsibility Committee. Holds a bachelor's degree from St. Cloud (Minnesota) State University and a law degree from Drake University.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers, directors and persons who beneficially own more than 10% of any class of our preferred stock to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission (Commission). Such executive officers, directors and greater than 10% beneficial owners are required by the regulations of the Commission to furnish us with copies of all Section 16(a) reports they file.

Based solely upon a review of copies of reports on Forms 3 and 4 and amendments thereto furnished to us during, and reports on Form 5 and amendments thereto furnished to us with respect to, the fiscal year ended August 31, 2013, and based further upon written representations received by us with respect to the need to file reports on Form 5, no individuals filed late reports required by Section 16(a) of the Exchange Act.

Code of Ethics

We have adopted a code of ethics within the meaning of Item 406(b) of Regulation S-K under the Exchange Act. This code of ethics applies to all of our officers and employees. We will provide to any person, without charge, upon request, a copy of such code of ethics. A person may request a copy by writing or telephoning us at the following:

CHS Inc.
Attention: Lisa Zell
5500 Cenex Drive
Inver Grove Heights, Minnesota 55077
(651) 355-6000

Audit Committee Matters

The Board of Directors has a separately designated standing Audit Committee for the purpose of overseeing our accounting and financial reporting processes and audits of our financial statements. The Audit Committee is comprised solely of directors Mr. Anthony, Mr. Bass, Mr. Schurr (Chairman) and Mr. Kruger, each of whom is an independent director. The Audit Committee has oversight responsibility to our owners relating to our financial statements and the financial reporting process, preparation of the financial reports and other financial information provided by us to any governmental or regulatory body, the systems of internal

accounting and financial controls, the internal audit function and the annual independent audit of our financial statements. The Audit Committee assures that the corporate information gathering and reporting systems developed by management represent a good faith attempt to provide senior management and the Board of Directors with information regarding material acts, events and conditions within CHS. In addition, the Audit Committee is directly responsible for the appointment, compensation and oversight of the independent registered public accounting firm.

We do not believe that any member of the Audit Committee of the Board of Directors is an audit committee “financial expert” as defined in the Sarbanes-Oxley Act of 2002 and rules and regulations thereunder. As a cooperative, our 17-member Board of Directors is nominated and elected by our members. To ensure geographic representation of our members, the Board of Directors represents eight regions in which our members are located. The members in each region nominate and elect the number of directors for that region as set forth in our bylaws. To be eligible for service as a director, a nominee must (i) be an active farmer or rancher, (ii) be a member of CHS or a Cooperative Association Member and (iii) reside in the geographic region from which he or she is nominated. Neither management nor the incumbent directors have any control over the

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nominating process for directors. Because of the nomination procedure and the election process, we cannot ensure that an elected director will be an audit committee “financial expert.”

However, many of our directors, including all of the Audit Committee members, are financially sophisticated and have experience or background in which they have had significant financial oversight responsibilities. The current Audit Committee includes directors who have served as presidents or chairmen of local cooperative association boards. Members of the Board of Directors, including the Audit Committee, also operate large commercial enterprises requiring expertise in all areas of management, including financial oversight.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Compensation

Overview

Changes to our Named Executive Officers during fiscal 2013 included the appointment of Timothy Skidmore as our Executive Vice President and Chief Financial Officer to replace David Kastelic who retired on September 3, 2013, and the addition of John McEnroe, our Executive Vice President and Chief Operating Officer of Country Operations as one of our Named Executive Officers.

CHS views employees as valued assets, and strives to provide total reward programs that are equitable and competitive within the market segments in which we compete, and within the framework of the CHS vision, mission and values. In this section, we will outline the compensation and benefit programs as well as the materials and factors used to assist us in making compensation decisions.

Compensation Philosophy and Objectives

The Corporate Responsibility Committee of our Board of Directors oversees the administration of, and the fundamental changes to, the executive compensation and benefits programs. The primary principles and objectives in compensating executive officers include:

- Maintaining a strong external market focus in order to attract and retain top talent by:
 - Aligning pay structures and target total direct compensation at the market median of similarly situated companies
- Maintaining reasonable internal pay equity among executives in order to allow for broad-based development opportunities in support of our talent management objectives
- Driving strong business performance through annual and long-term incentive programs by:
 - Rewarding executives for company, business unit and individual performance
 - Aligning executive rewards with competitive returns to our member owners
 - Ensuring compensation components are mutually supportive and not contradictory
 - Aligning annual and long-term results with performance goals
 - Ensuring compliance with government mandates and regulations

Changes to our compensation plans for fiscal 2014 include changing our profit sharing and incentive plan performance measures to Return on Adjusted Equity ("ROAE"). This change will be effective for fiscal 2014 for our Profit Sharing Plan and Annual Variable Pay Plan, and effective for the fiscal 2012 - 2014 Long-Term Incentive Plan. In addition, the Long-Term Incentive Plan is being expanded to provide incentives for superior long-term performance that are more consistent with external benchmarks and are aligned with competitive returns to our member owners.

Components of Executive Compensation and Benefits

Our executive compensation programs are designed to attract and retain highly qualified executives and to motivate them to optimize member-owner returns by achieving specified goals. The compensation program links executive compensation directly to our annual and long-term financial performance. A significant portion of each executive's compensation is dependent upon meeting financial goals and a smaller portion is linked to other individual performance objectives.

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Each year, the Corporate Responsibility Committee of the Board of Directors reviews our executive compensation policies with respect to the correlation between executive compensation and the creation of member-owner value, as well as the competitiveness of the executive compensation programs. The Corporate Responsibility Committee, with input from a third party consultant if necessary, determines what, if any, changes are appropriate to our executive compensation programs including the incentive plan goals for the Named Executive Officers. The third party consultant is chosen and hired directly by the Corporate Responsibility Committee to provide guidance regarding market competitive levels of base pay, annual variable pay and long-term incentive pay as well as market competitive allocations between base pay, annual variable pay and long-term incentive pay for the Chief Executive Officer (CEO). The data is shared with our Board of Directors which makes final decisions regarding the Chief Executive Officer's base pay, annual incentive pay and long-term incentive pay, as well as the allocation of compensation between base pay, annual incentive pay and long-term incentive pay. There are no formal policies for allocation between long-term and cash compensation other than the intention of being competitive with the external market median level of compensation for comparable positions and being consistent with our compensation philosophy and objectives. The Corporate Responsibility Committee recommends to the Board of Directors salary actions relative to our CEO and approves annual and long-term incentive awards based on goal attainment. In turn, the Board of Directors communicates this pay information to the CEO. The CEO is not involved with the selection of the third party consultant and does not participate in, or observe, Corporate Responsibility Committee meetings that concern CEO compensation matters. Based on review of compensation market data provided by our human resources department (survey sources and pricing methodology are explained under "Components of Compensation"), with input from a third party consultant if necessary, the CEO decides base compensation levels for the other Named Executive Officers, recommends for Board of Directors approval the annual and long-term incentive levels for the other Named Executive Officers and communicates base and incentive compensation levels to the other Named Executive Officers. The day-to-day design and administration of compensation and benefit plans are managed by our human resources, finance and legal departments.

We intend to preserve the deductibility, under the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), of compensation paid to our executive officers while maintaining compensation programs to attract and retain highly qualified executives in a competitive environment.

In this Compensation Discussion and Analysis, the related compensation tables and the accompanying narratives, all references to a given year refer to our fiscal year ending on August 31 of that year.

Components of Compensation

The executive compensation and benefits program consists of seven components. Each component is designed to be competitive within the executive compensation market. In determining competitive compensation levels, we analyze information from independent compensation surveys, which include information regarding comparable industries, markets, revenues and companies that compete with us for executive talent. The surveys used for this analysis in fiscal 2013 included a combination of any of the following sources: Hay Group Executive Remuneration Report, AonHewitt Total Compensation Measurement, Mercer US Executive Compensation Survey, Towers Watson Executive Compensation Databank and Towers Watson Survey of Top Management Compensation. The data extracted from these surveys includes median market rates for base salary, annual incentive, total cash compensation and total direct compensation. Companies included in the surveys vary by industry, revenue and number of employees, and represent both public and private ownership, as well as non-profit, government and mutual organizations. The number of companies participating in these

surveys ranged from 472 to 3,035, with an average of 1,017. In addition, in fiscal 2013 we retained Towers Watson to provide customized survey data from the Towers Watson Executive Compensation Databank, to include a subset consisting of 26 companies in the agribusiness, energy, fertilizer and food industries. Data for these companies included 25th, 50th and 75th percentile for base pay, total cash compensation (sum of base pay and annual variable pay), and total direct compensation (sum of base pay, annual variable pay and long-term incentive). Towers Watson also provided historical return on equity data for the same group of agribusiness, energy, fertilizer and food companies. The emphasis of our executive compensation package is weighted more on variable pay through annual variable pay and long-term incentive awards. This is consistent with our compensation philosophy of emphasizing a strong link between pay, employee performance and business goals to foster a clear line-of-sight and strong commitment to CHS' short-term and long-term success, and also aligns our programs with general market practices. The goal is to provide our executives with an overall compensation package that is competitive to median compensation in comparable industries, companies and markets. We target the market median for base pay, target total cash and target total direct compensation pay. The following table presents a more detailed breakout of each compensation element:

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Pay Element	Definition of Pay Element	Purpose of Pay Element
Base Pay	Competitive base level of compensation provided relative to skills, experience, knowledge and contributions	<ul style="list-style-type: none"> Provides the fundamental element of compensation based on competitive market practice and internal equity considerations Provides a direct link between pay and annual business objectives
Annual Variable Pay	Broad-based employee short-term performance based variable pay incentive for achieving predetermined annual financial and individual performance objectives	<ul style="list-style-type: none"> Pay for performance to motivate and encourage the achievement of critical business initiatives Provides a direct link between employee pay and CHS's profitability
Profit Sharing	Broad-based employee short-term performance based variable pay program for achieving predetermined return on equity performance levels	<ul style="list-style-type: none"> Encourages proper expense control and containment Provides a direct link between senior management pay and long-term strategic business objectives
Long-Term Incentive Plans	Long-term performance based incentive for senior management to achieve predetermined triennial return on equity performance goals	<ul style="list-style-type: none"> Aligns management and member-owner interests Encourages retention of key management These benefits are a part of our broad-based employee total rewards program designed to attract and retain quality employees
Retirement Benefits	Retirement benefits under the qualified retirement plans are identical to the broad-based retirement plans generally available to all full-time employees. The supplemental plans include non-qualified retirement benefits that restore qualified benefits contained in our broad-based plans for employees whose retirement benefits are limited by salary caps under the Internal Revenue Code. In addition, the plans allow participants to voluntarily defer receipt of a portion of their income	<ul style="list-style-type: none"> These benefits are provided to attract and retain senior managers with total rewards programs that are competitive with comparable companies
Health & Welfare Benefits	Medical, dental, vision, life insurance and disability benefits generally available to all full-time employees with supplemental executive long-term disability	<ul style="list-style-type: none"> These benefits are a part of our broad-based employee total rewards program designed to attract and retain quality employees These benefits are provided as part of an overall total rewards package that strives to be competitive with comparable companies and retain individuals who are critical to CHS
Additional Benefits	Additional benefits provided to certain officers, including our Named Executive Officers	

Base Pay:

Base salaries of the Named Executive Officers represent a fixed form of compensation paid on a semi-monthly basis. The base salaries are generally set at the median level of market data collected through our benchmarking process against other equivalent positions of comparable revenue-size companies. The individual's actual salary relative to the market median is based on a number of factors, which include, but are

not limited to: scope of responsibilities, individual experience and individual performance.

Base salaries for the Named Executive Officers are reviewed on an annual basis or at the time of significant changes in scope and level of responsibilities. Changes in base salaries are determined based on review of competitive market data, as well as individual performance and contribution. Changes are not governed by pre-established weighting factors or merit metrics. The CEO is responsible for this process for the other Named Executive Officers. The Corporate Responsibility Committee is

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responsible for this process for the CEO. Mr. Casale received a base pay increase of 3.0% in fiscal 2013. The other Named Executive Officers also received the following base salary increases in fiscal 2013: David Kastelic 3.0%; Mark Palmquist 3.0%; Jay Debertin 3.0%; John McEnroe 20% and Patrick Kluempke 3.0%.

Annual Variable Pay:

Each Named Executive Officer other than Mr. Skidmore was eligible to participate in our Annual Variable Pay Plan for our fiscal year ended August 31, 2013. Due to his August 2013 start date, Mr. Skidmore will first become eligible to participate in the plan for fiscal 2014. Target award levels were set with reference to competitive market compensation levels and were intended to motivate our executives by providing variable pay awards for the achievement of predetermined goals. Our incentive program was based on financial performance and specific management business objectives with payout dependent on CHS triggering threshold financial performance. The financial performance components included return on equity (ROE) goals for both CHS and the executive's business unit. The CHS threshold, target and maximum ROE goals for fiscal 2013 were 8%, 10% and 14%, respectively. The threshold, target and maximum ROE goals for each business unit vary by unit. The management business objectives include individual performance against specific goals such as business profitability, strategic initiatives or talent development.

CHS financial performance goals and award opportunities under our fiscal 2013 Annual Variable Pay Plan were as follows:

Performance Level	CHS Company Performance Goal	Business Unit Performance Goal	Management Business Objectives	Percent of Target Award
	14% Return on Equity	Threshold, Target and Maximum Return on Equity		200%
Maximum	10% Return on Equity	goals vary by business unit but are consistent with and support company ROE goals	Individual performance goals	100%
Target	8% Return on Equity			20%
Threshold	Equity <8% Return on Equity			0%
Below Threshold				

Starting with fiscal 2012, the annual variable pay awards for the Named Executive Officers were calculated depending on performance results, by applying the percent of target award earned to their fiscal year end base salary rather than salary range midpoint. This change was made in an effort to simplify plan design and administer plans consistently. During this transition, the salary range midpoint was used if it was higher than base salary.

The types and relative importance of specific financial and other business goals varies among executives depending upon their positions and the particular business unit for which they are responsible. Financial goals are given greater weight than other individual performance goals in determining individual awards.

The CHS Board of Directors approves the Annual Variable Pay Plan total Company ROE goals (ROAE beginning in fiscal 2014) and determines the CEO's individual goals. The weighting of the CEO's goals is 70% CHS total company ROE and 30% principle accountabilities and individual goals. The CEO approves business unit ROE goals and determines non-financial goals for the other Named Executive Officers. The weighting of goals for the other Named Executive Officers is also 70% ROE and 30% principle

accountabilities and individual goals. The ROE goals for the other Named Executive Officers are either total CHS, or combined CHS and business unit, depending on whether the executive is responsible for an operating group or not. The variable pay plan is designed such that if threshold non-financial and financial performance goals are achieved, the annual variable pay award would equal 20 percent of target awards; if target non-financial and financial performance goals are achieved, the award would equal 100% of target awards and if maximum non-financial and financial performance goals are achieved, the award would equal 200% of target awards.

In conjunction with the annual performance appraisal process of the CEO, the Board of Directors reviews the non-financial goals, and in turn, determines and approves this portion of the annual variable pay award based upon completion or partial completion of the previously specified goals and principal accountabilities for the CEO. Likewise, the CEO uses the same process for determining individual goal attainment for the other Named Executive Officers. Named Executive Officers are covered by the same broad-based Annual Variable Pay Plan as other employees, and based on the plan provisions, when they retire they receive awards prorated to the period of time eligible.

For fiscal 2013, CHS achieved an ROE of 22.3%. Annual variable pay payments for the Named Executive Officers are as follows:

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Carl Casale	\$2,254,500
David Kastelic	\$856,800
Mark Palmquist	\$562,380
Jay Debertin	\$862,680
John McEnroe	\$840,000
Patrick Kluempke (1)	\$—

Mr. Kluempke retired effective March 31, 2013 and entered into a separation agreement with us in (1)connection with his retirement. The payments made to Mr. Kluempke pursuant to that agreement are reported in the Summary Compensation Table under the column “All Other Compensation.”

Profit Sharing:

Each Named Executive Officer is eligible to participate in our Profit Sharing Plan applicable to other employees. The purpose of the Profit Sharing Plan is to provide a direct link between employee pay and CHS profitability. Annual profit sharing contributions are calculated as a percent of base pay and annual variable pay (total earnings) and are made to the CHS 401(k) plan account and Deferred Compensation Plan account of each Named Executive Officer. The levels of profit sharing awards vary in relation to the level of CHS ROE achieved and are displayed in the following table:

Return On Equity	Equates to Net Income for Fiscal 2013	Profit Sharing Award
14.0%	\$623.7 Million	5%
12.0%	\$534.6 Million	4%
10.0%	\$445.5 Million	3%
9.0%	\$401.0 Million	2%
8.0%	\$356.4 Million	1%

In fiscal 2013 the maximum ROE goal was reached.

Effective for fiscal 2014, the ROAE goals are:

Return On Adjusted Equity	Equates to Net Income for Fiscal 2014	Profit Sharing Award
14.0%	\$698.2 Million	5%
12.0%	\$602.0 Million	4%
10.0%	\$505.7 Million	3%
9.0%	\$457.6 Million	2%
8.0%	\$409.5 Million	1%

Long-Term Incentive Plans:

Each Named Executive Officer is eligible to participate in our Long-Term Incentive Plan (“LTIP”). The purpose of the LTIP is to align results with long-term performance goals, encourage our Named Executive Officers to maximize long-term shareholder value, and retain key executives. Due to his August 2013 start date, Mr. Skidmore will first become eligible for an LTIP award pursuant to the fiscal 2012 - 2014 plan, without proration, based on his term sheet.

The LTIP consists of three-year performance periods to ensure consideration is made for long-term CHS sustainability with a new performance period beginning every year. The LTIP has historically been based on CHS ROE over three-year periods. The CHS Board of Directors approves the LTIP ROE goals.

Award opportunities for the fiscal 2011-2013 LTIP are expressed as a percentage of a participant's average salary for the three-year performance period unless the salary is below mid-point in which case the mid-point would be used. Threshold and maximum award opportunities are set between 20 percent and 200 percent of target payout. CHS must meet a three-year period threshold level of ROE for LTIP to trigger a payout. The threshold, target and maximum ROE goals for fiscal 2011-2013

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performance period were 8%, 10% and 14%, respectively. Beginning with the 2012 - 2014 plan period the LTIP performance range will be expanded to emphasize pay for performance and superior ROAE results.

During fiscal 2013 CHS utilized a third party consultant, Towers Watson, to conduct an assessment of total direct compensation in relation to Named Executive Officers below the CEO level, as discussed above under “Components of Compensation”. A separate study was conducted by Towers Watson at the request of the Corporate Responsibility Committee of the CHS Board of Directors to review CEO compensation. The committee reviewed the market data and concluded that the current compensation programs were not aligned with CHS’s compensation philosophy of paying target total cash and target total direct compensation. Therefore, the committee recommended and the CHS Board of Directors approved to expand the CHS Long Term Incentive Plan to provide additional award opportunity for above market performance between 14% and 20% ROAE. Details for awards associated with the expanded plan are provided in the 2013 Grants of Plan-Based Awards table.

Awards from the LTIP are contributed to the CHS Deferred Compensation Plan after the end of each performance period. These awards are earned over a three-year period and vest over an additional 28-month period following the performance period end date. The extended earning and vesting provisions of the LTIP are designed to help CHS retain key executives. Participants who terminate from CHS prior to retirement forfeit all unearned and unvested LTIP award balances. Participants who meet retirement criteria, die or become disabled receive prorated awards following the LTIP plan rules. Like the Annual Variable Pay Plan, award levels for the LTIP are set with regard to competitive considerations.

For the fiscal year 2011-2013 performance period, CHS reached the maximum level ROE for awards under the LTIP. Payments for the Named Executive Officers under the LTIP were as follows:

Carl Casale	\$2,189,417
David Kastelic	\$819,980
Mark Palmquist	\$900,202
Jay Debertin	\$845,973
John McEnroe	\$608,000
Patrick Kluempke (1)	\$—

Mr. Kluempke retired effective March 31, 2013 and entered into a separation agreement with us in (1)connection with his retirement. The payments made to Mr. Kluempke pursuant to that agreement are reported in the Summary Compensation Table under the column “All Other Compensation.”

Retirement Benefits:

We provide the following retirement and deferral programs to executive officers:

- CHS Inc. Pension Plan
- CHS Inc. 401(k) Plan
- CHS Inc. Supplemental Executive Retirement Plan
- CHS Inc. Deferred Compensation Plan

CHS Inc. Pension Plan

The CHS Inc. Pension Plan (the "Pension Plan") is a tax qualified defined benefit pension plan. All Named Executive Officers participate in the Pension Plan. A Named Executive Officer is fully vested in the plan after three years (depending on hire date) of vesting service. The Pension Plan provides for a lump sum payment of the participant's account balance (or a monthly annuity if elected) for the Named Executive Officer's lifetime beginning at normal retirement age. Compensation includes total salary and annual variable pay. Compensation and benefits are limited based on limits imposed by the Internal Revenue Code. The normal form of benefit for a single Named Executive Officer is a life annuity, and for a married Named Executive Officer the normal form is a 50% joint and survivor annuity. Other annuity forms are also available on an actuarial equivalent basis.

A Named Executive Officer's benefit under the Pension Plan depends on 1) pay credits to the employee's account, which are based on the Named Executive Officer's total salary and annual variable pay for each year of employment, date of

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hire, age at date of hire and the length of service and 2) investment credits which are computed using the interest crediting rate and the Named Executive Officer's account balance at the beginning of the plan year.

The amount of pay credits added to a Named Executive Officer's account each year is a percentage of the Named Executive Officer's base salary and annual variable pay plus compensation reduction pursuant to the CHS Inc. 401(k) Plan, (the "401(k) Plan"), and any pretax contribution to any of our welfare benefit plans, paid vacations, paid leaves of absence and pay received if away from work due to a sickness or injury. The pay credits percentage received is determined on a yearly basis, based on the years of benefit service completed as of December 31 of each year. A Named Executive Officer receives one year of benefit service for every calendar year of employment in which the Named Executive Officer completed at least 1,000 hours of service.

Pay credits are earned according to the following schedule:

Regular Pay Credits

Years of Benefit Service	Pay Below Social Security Taxable Wage Base	Pay Above Social Security Taxable Wage Base
1 - 3 years	3%	6%
4 - 7 years	4%	8%
8 - 11 years	5%	10%
12 - 15 years	6%	12%
16 years or more	7%	14%

Mid Career Pay Credits

Employees hired after age 40 qualify for the following minimum pay credit:

Age at Date of Hire	Minimum Pay Credit	
	Pay Below Social Security Taxable Wage Base	Pay Above Social Security Taxable Wage Base
Age 40 - 44	4%	8%
Age 45 - 49	5%	10%
Age 50 or more	6%	12%

Investment Credits

We credit a Named Executive Officer's account at the end of the year with an investment credit based on the balance at the beginning of the year. The investment credit is based on the average return for one-year U.S. Treasury bills for the preceding 12-month period. The minimum interest rate under the Pension Plan is 4.65% and the maximum is 10%.

CHS Inc. 401(k) Plan

The 401(k) Plan is a tax-qualified defined contribution retirement plan. Most full-time, non-union CHS employees are eligible to participate in the 401(k) Plan, including each Named Executive Officer. Participants may contribute between 1% and 50% of their pay on a pretax basis. We match 100% of the first 1% and 50%

of the next 5% of pay contributed each year (maximum 3.5%). The Board of Directors may elect to reduce or eliminate matching contributions for any year or any portion thereof. Participants are 100% vested in their own contributions and are fully vested after two years of service in matching contributions made on the participant's behalf by CHS.

Non-participants are automatically enrolled in the plan at 3% contribution rate and effective each January 1st, the participant's contribution will be automatically increased by 1%. This escalation will stop once the participant's contribution reaches 6%. The participant may elect to cancel or change these automatic deductions at any time.

CHS Inc. Supplemental Executive Retirement Plan and CHS Inc. Deferred Compensation Plan

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Because the Internal Revenue Code limits the benefits that may be paid from the Pension Plan and the 401(k) Plan, the CHS Inc. Supplemental Executive Retirement Plan (the “SERP”) and CHS Inc. Deferred Compensation Plan (the “Deferred Compensation Plan”) were established to provide certain employees participating in the qualified plans with supplemental benefits such that, in the aggregate, they equal the benefits they would have been entitled to receive under the qualified plan had these limits not been in effect. The SERP also includes compensation deferred under the Deferred Compensation Plan that is excluded under the qualified retirement plan. All Named Executive Officers participate in the SERP. Participants in the plans are select management or highly compensated employees who have been designated as eligible by our President and CEO to participate.

All Named Executive Officers are eligible to participate in the Deferred Compensation Plan.

Compensation includes total salary and annual variable pay without regard to limitations on compensation imposed by the Internal Revenue Code. Compensation waived under the Deferred Compensation Plan is not eligible for pay credits or company contributions under the Pension Plan and 401(k) Plan.

Certain Named Executive Officers may have accumulated non-qualified plan balances or benefits that have been carried over from predecessor companies as a result of past mergers and acquisitions. Benefits from the SERP are primarily funded in a rabbi trust, with a balance at August 31, 2013 of \$24.2 million. Benefits from the plan do not qualify for special tax treatment under the Internal Revenue Code.

The Deferred Compensation Plan allows eligible Named Executive Officers to voluntarily defer receipt of up to 30% of their base salary and up to 100% of their annual variable pay. The election must occur prior to the beginning of the calendar year in which the compensation will be earned. During the year ended August 31, 2013, all of the Named Executive Officers were eligible to participate in the Deferred Compensation Plan. Mr. Kluempke, Mr. McEnroe and Mr. Debertin participated in the elective portion of the Deferred Compensation Plan.

Benefits from the Deferred Compensation plan are primarily funded in a rabbi trust, with a balance as of August 31, 2013 of \$91.0 million. Benefits from the plan do not qualify for special tax treatment under the Internal Revenue Code.

Health & Welfare Benefits:

Like other CHS employees, each of the Named Executive Officers is entitled to receive benefits under our comprehensive health and welfare program. Like other non-executive full-time employees, participation in the individual benefit plans is based on each Named Executive Officer's annual benefit elections and varies by individual.

Medical Plans

Named Executive Officers and their dependents may participate in our medical plan on the same basis as other eligible full-time employees. The plan provides each an opportunity to choose a level of coverage and coverage options with varying deductibles and co-pays in order to pay for hospitalization, physician and prescription drugs expenses. The cost of this coverage is shared by both CHS and the covered Named Executive Officer.

Dental, Vision, and Hearing Plan

Named Executive Officers and their dependents may participate in our Dental, Vision, and Hearing plan on the same basis as other eligible full-time employees. The plan provides coverage for basic dental, vision and hearing expenses. The cost of this coverage is shared by both CHS and the covered Named Executive Officer.

Life, AD&D and Dependent Life Insurance

Named Executive Officers and their dependents may participate in our basic life, optional life, accidental death and dismemberment (AD&D) and dependent life plans on the same basis as other eligible full-time employees. The plans allow Named Executive Officers an opportunity to purchase group life insurance on the same basis as other eligible full-time employees. Basic life insurance equal to one times pay will be provided at CHS expense on the same basis as other eligible full-time employees. Named Executive Officers can choose various coverage levels of optional life insurance at their own expense on the same basis as other eligible full-time employees.

Short- and Long-term Disability

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Named Executive Officers participate in our Short-Term Disability (“STD”) Plan on the same basis as other eligible full-time employees. The Named Executive Officers also participate in an executive Long-Term Disability (“LTD”) Plan. These plans replace a portion of income in the event that a Named Executive Officer is disabled under the terms of the plan and is unable to work full-time. The cost of STD and LTD coverage is paid by CHS.

Flexible Spending Accounts/Health Savings Accounts

Named Executive Officers may participate in our Flexible Spending Account (“FSA”) or Health Savings Account (“HSA”) on the same basis as other eligible full-time employees. The plan provides Named Executive Officers an opportunity to pay for certain eligible medical expenses on a pretax basis. Contributions to these plans are made by the Named Executive Officer.

Travel Assistance Program

Like other non-executive full-time CHS employees, each of the Named Executive Officers is covered by the travel assistance program. This broad-based program provides accidental death and dismemberment protection should a covered injury or death occur while on a CHS business trip.

Additional Benefits:

Certain benefits such as executive physical and limited financial planning assistance are available to the Named Executive Officers. These are provided as part of an overall total rewards package that strives to be competitive with comparable companies and retain individuals who are critical to CHS. Previous to fiscal 2012, certain perquisites such as car allowances and club memberships were also available to Named Executive Officers. Those perquisites have been discontinued.

Mr. Skidmore, our CFO, joined us in August, 2013 and the terms of his employment provide for certain payments to Mr. Skidmore in respect of compensation earned from Mr. Skidmore's former employer during past periods but forfeited in order to accept employment with CHS due to vesting requirements and other restrictions (the “Replacement of Forfeited Compensation”). Specifically, Mr. Skidmore is entitled to receive three equal payments of \$180,000 for forfeited restricted stock and three equal payments of \$55,163 for forfeited incentives to be paid as follows: the first payments within 30 days of his start date; the second payments within 30 days after the first anniversary of start date and the third payments within 30 days after the second anniversary of the start date.

Fiscal 2014 Agreements

On November 6, 2013 our Board of Directors approved a new employment and an amended and restated change in control agreement that supersede the employment and change in control agreements we entered into in November 2010 with Mr. Casale, our CEO. The new agreements are described above under Item 9B, Other Information. Our existing employment agreement with Mr. Casale had an initial term expiring on December 31, 2013. Rather than extend that agreement, our Board of Directors decided to replace the agreement with a new employment agreement. The new agreement reflects an increase in Mr. Casale’s annual base salary from \$901,800 for calendar 2013 to \$990,000 effective as of January 1, 2014, and an increase in his maximum long-term incentive award from 250% to 500% of his average fiscal year-end base salary during the three year performance period applicable to the award opportunity. The amended and restated change in control agreement was entered into in order to reflect that the new employment agreement had been entered

into.

Summary Compensation Table

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Name and Principal Position	Year	Salary (1)(15)	Non-Equity Incentive Plan Compensation (1)(2)(15)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings (3)(15)	All Other Compensation (4-15)	Total
Carl Casale	2013	\$893,033	\$ 4,443,917	\$ 332,777	\$ 1,094,729	\$6,764,456
President and Chief Executive Officer	2012	867,000	4,345,625	416,179	1,121,907	6,750,711
Timothy Skidmore	2011	566,667	4,250,000		910,956	5,727,623
Executive Vice President and Chief Financial Officer	2013	17,308				17,308
Mark Palmquist	2013	663,000	1,462,582	177,531	146,819	2,449,932
Executive Vice President and Chief Operating Officer, Ag Business	2012	643,708	1,772,169	589,377	136,099	3,141,353
Jay Debertin	2011	602,337	1,665,626	252,606	153,740	2,674,309
Executive Vice President and Chief Operating Officer, Energy and Foods	2013	610,233	1,708,653	222,526	120,186	2,661,598
John McEnroe	2012	590,720	1,606,033	569,614	118,673	2,885,040
Executive Vice President and Chief Operating Officer, Country Operations	2011	516,667	1,536,826	208,868	131,724	2,394,085
David Kastelic	2013	566,667	1,448,000	212,735	118,769	2,346,171
Retired Executive Vice President, Corporate Services	2012	550,800	1,676,780	223,624	116,750	2,567,954
Patrick Kluempke	2012	531,707	1,442,240	318,149	105,054	2,397,150
Retired Executive Vice President, Corporate Services	2011	424,334	1,185,173	122,522	74,560	1,806,589
	2013	355,337		275,642	1,775,055	2,406,034
	2012	495,465	1,353,053	298,592	108,895	2,256,005
	2011	448,942	1,273,626	223,530	115,915	2,062,013

Amounts reflect the gross compensation and include any applicable deferrals. Mr. Debertin deferred (1) \$709,983 in fiscal 2013, \$79,773 in fiscal 2012, \$504,000 in fiscal 2011; Mr. McEnroe deferred \$415,000 in fiscal 2013; and Mr. Kluempke deferred \$38,679 in fiscal 2013.

(2) Amounts include CHS fiscal 2011, fiscal 2012 and fiscal 2013 annual variable pay awards and fiscal 2009-2011, fiscal 2010-2012 and fiscal 2011-2013 long-term incentive awards.

(3) This column represents both changes in pension value and above-market earnings on deferred compensation. Change in pension value is the aggregate change in the actuarial present value of the Named Executive Officers' benefit under their retirement program and nonqualified earnings, if applicable.

Above-market earnings represent earnings exceeding 120% of the Federal Reserve long-term rate as determined by the Internal Revenue Service (IRS) on applicable funds. The following Named Executive

Officers had above market earnings in fiscal 2013: Mr. Casale- \$48,472; Mr. Kastelic- \$47,454; Mr. Palmquist- \$47,445; Mr. Debertin- \$125,271; Mr. Kluempke- \$56,277; Mr. McEnroe- \$53,702 and above market earnings in fiscal 2012: Mr. Casale- \$24,900; Mr. Kastelic- \$39,912; Mr. Palmquist- \$42,397; Mr. Debertin- \$112,743; Mr. Kluempke- \$47,560 and above market earnings in fiscal 2011: Mr. Kastelic- \$13,522; Mr. Palmquist- \$17,852; Mr. Debertin- \$40,893; Mr. Kluempke- \$17,969.

(4) Amounts may include CHS paid executive LTD, travel accident insurance, executive physical, CHS contributions during each fiscal year to qualified and non-qualified defined contribution plans, spousal travel, event tickets and financial planning. Years prior to fiscal 2012 may also include car allowance and dues/memberships which were discontinued in fiscal 2012.

(5) This column includes fiscal 2011 car allowance amounts as follows: Mr. Palmquist- \$15,120; Mr. Debertin- \$15,120; Mr. Kastelic- \$15,120; Mr. Kluempke- \$15,120.

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(6) This column includes fiscal 2013 executive LTD of \$3,606 for all Named Executive Officers except Mr. Kluempke- \$2,130 and Mr. Skidmore- \$0.

(7) This column includes fiscal 2013 amounts as follows for Mr. Casale: executive physical \$2,881.

(8) This column includes fiscal 2013 amounts as follows for Mr. Palmquist: executive physical \$7,046; and events tickets \$3,200 and amounts in fiscal 2012: executive physical \$5,679; and events tickets \$2,642.

(9) This column includes fiscal 2013 amounts as follows for Mr. Debertin: executive physical \$2,543.

(10) This column includes fiscal 2013 amounts for Mr. McEnroe: executive physical \$7,381; and events tickets \$3,618.

This column includes fiscal 2013 amounts for Mr. Kluempke: financial planning \$4,494; and retirement gift card \$1,000 with a gross up value of \$1,506 and amounts in fiscal 2012: \$5,412 executive physical; and \$2,469 reimbursement for gasoline under Cenex Fleet Card.

(12) This column includes fiscal 2013 amounts for Mr. Kastelic: retirement gift card \$1,200 with a gross up value of \$1,807.

(13) This column includes fiscal 2013 amount as follows for Mr. Kluempke: \$1,428,921 fiscal 2013 annual variable pay and long term incentive awards and \$247,500 consulting payments per release agreement.

Includes the following payments for Mr. Casale per his employment agreement: fiscal 2013: \$833,333 payout covering earned and forfeited compensation from previous employment; fiscal 2012: \$833,334 payout covering earned and forfeited compensation from previous employment, \$19,780 relocation expenses with a gross up value of \$35,512; fiscal 2011: \$833,334 payout covering earned and forfeited compensation from previous company, \$30,000 relocation expenses with a gross up value of \$53,860, and legal fees for Mr. Casale per his employment agreement.

(15) Information on Mr. Skidmore and Mr. McEnroe includes compensation from fiscal 2013 only, the first year in which they became Named Executive Officers.

Agreements with Named Executive Officers

In November 2010, we entered into three-year employment and change in control agreements with Mr. Casale, our CEO. Copies of these agreements were previously filed and are listed as Exhibits 10.1 and 10.2 to the registration statement to which this prospectus is a part. The employment agreement with Mr. Casale was entered into to clearly define the obligations of the parties with respect to employment matters as well as compensation and benefits provided to the executive officer upon termination of employment. Mr. Casale's change in control agreement was designed to help attract and retain Mr. Casale, recognizing that change in control protections are commonly provided at comparable companies with which CHS competes for executive talent. Because of our cooperative ownership structure, CHS is in a position where a change of control is unlikely. However, we believe that this arrangement provides financial security to Mr. Casale and enhances his impartiality and objectivity in the case of a change in control in which he could potentially lose his position.

The agreement also provides for certain payments to Mr. Casale in respect of compensation earned from Mr. Casale's former employer during past periods but forfeited in order to accept employment with CHS due to vesting requirements and other restrictions (the "Replacement Cash Payments"). Specifically, Mr. Casale is entitled to receive three equal payments of \$833,333, two of which were made in fiscal 2012 and the third and final payment of which was paid in January, 2013.

The severance pay and benefits to which Mr. Casale will be entitled if we terminate his employment without cause, if he terminates his employment for "good reason" or if there is change in control, are described below under the heading "Post Employment".

Mr. Casale's employment agreement also provides that in the event of certain restatements of our financial results due to material noncompliance with financial reporting requirements, if our Board determines in good faith that compensation paid (or payable but not yet paid) to the appropriate executive was awarded or determined based on such material noncompliance, then we are entitled to recover from the executive (or to reduce compensation determined but not yet paid) all compensation based on the erroneous financial data in excess of what would have been paid or been payable to him under the restatement.

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On November 6, 2013, we entered into a new employment agreement and change of control agreement with Mr. Casale, as described under item 9B, Other Information. This agreement will become effective as of January 1, 2014.

Mr. Skidmore, our CFO, joined us in August 2013. The severance payments to which Mr. Skidmore will be entitled if we terminate his employment without cause or if he terminates his employment for “good reason” are described below under the heading “Post Employment”. Other details of Mr. Skidmore's employment arrangement with us are described in the Compensation Discussion and Analysis above.

Explanation of Ratio of Salary and Bonus to Total Compensation

The structure of our executive compensation package is focused on a suitable mix of base pay, annual variable pay and long-term incentive awards in order to encourage executive officers and employees to strive to achieve goals that benefit our shareholders' interests over the long term, and to better align our programs with general market practices.

Fiscal 2013 Executive Compensation Mix at Target

The charts below illustrate the mix of base salary, annual variable pay at target performance, and long-term incentive compensation at target performance for fiscal 2013 for our CEO and the other four Named Executive Officers as a group.

The Other NEO Target Pay Mix chart does not include Mr. Kluempke and Mr. Skidmore, because neither individual had full fiscal year 2013 service.

2013 Grants of Plan-Based Awards

Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)

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Name	Grant Date	Threshold	Target	Maximum	Superior Performance Maximum
Carl Casale	9-1-12(2)	\$225,450	\$1,127,250	\$2,254,500	\$—
	9-1-12(3)	225,450	1,127,250	2,254,500	4,509,000
David Kastelic	9-1-12(2)	85,680	428,400	856,800	—
	9-1-12(3)	85,680	428,400	856,800	1,713,600
Timothy Skidmore (4)	9-1-12(2)	—	—	—	—
	9-1-12(3)	63,000	315,000	630,000	1,260,000
Mark Palmquist	9-1-12(2)	93,730	468,650	937,300	—
	9-1-12(3)	93,730	468,650	937,300	1,874,600
Jay Debertin	9-1-12(2)	86,268	431,340	862,680	—
	9-1-12(3)	86,268	431,340	862,680	1,725,360
John McEnroe	9-1-12(2)	84,000	420,000	840,000	—
	9-1-12(3)	84,000	420,000	840,000	1,680,000
Patrick Kluempke (5)	9-1-12(2)	72,201	361,005	722,009	—
	9-1-12(3)	72,201	361,005	722,009	1,444,019

- (1) Changes in award calculation methodology based on year end salary versus midpoint are explained in Components of Compensation under Annual Variable Pay and Long-Term Incentive descriptions.

- (2) Represents range of possible awards under our fiscal 2013 Annual Variable Pay Plan. The actual amount of the award earned for fiscal 2013 is included in the "Non-Equity Incentive Plan Compensation" column of our Summary Compensation Table. The Annual Variable Pay Plan is described under "Compensation Discussion and Analysis-Annual Variable Pay."

- (3) Represents range of possible awards under our Long-Term Incentive Plan for the fiscal 2013-2015 performance period. Goals are based on achieving a three-year ROAE of 8%, 10% and 14% plus an award for superior 20% ROAE performance. Awards are earned over a three-year period and vest over an additional 28-month period. The Long-Term Incentive Plan is described under "Compensation Discussion and Analysis - Long-Term Incentive Plans."

- (4) Due to his August 2013 start date, Mr. Skidmore is not eligible for fiscal 2013 Annual Variable Pay Plan or fiscal 2011 - 2013 Long-Term Incentive Plan.

- (5) Estimated Grants of Plan Based Award amounts for Mr. Kluempke represent full fiscal year 2013 participation. Mr. Kluempke retired effective March 31, 2013. His Annual Variable Pay and Long-Term Incentive Awards for fiscal 2013 are reflected in the Summary Compensation Table, All Other Compensation column, as noted in footnote 13 in the Summary Compensation Table. Mr. Kluempke will receive prorated Long-Term Incentive Awards based on his retirement date for fiscal 2012 - 2014 and fiscal 2013 - 2015 plans.

The material terms of annual variable pay and long-term incentive awards that are disclosed in this table, including the vesting schedule, are described under Compensation, Discussion and Analysis. Specifics to the calculation of Mr. Casale's award are described under "Agreements with Named Executive Officers."

Pension Benefits Table

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Name	Plan Name	Number of Years of Credited Service	Present Value of Accumulated Benefits	Payments During Last Fiscal Year
Carl Casale	CHS Inc. Pension Plan	2.6667	\$39,665	\$0
	SERP	2.6667	635,919	0
Mark Palmquist(1)	CHS Inc. Pension Plan	34.0000	786,366	0
	SERP	34.0000	2,342,367	0
Jay Debertin	CHS Inc. Pension Plan	29.2500	616,882	0
	SERP	29.2500	1,413,788	0
John McEnroe(1)	CHS Inc. Pension Plan	34.5833	651,491	0
	SERP	34.5833	628,550	0
David Kastelic(1)	CHS Inc. Pension Plan	20.1667	450,894	0
	SERP	20.1667	796,021	0
Patrick Kluempke(1)	CHS Inc. Pension Plan	30.6667	985,957	985,957
	SERP	30.6667	1,249,920	0

(1)Executive is eligible for early retirement in both the CHS Inc. Pension Plan and the SERP.

The above table shows the present value of accumulated retirement benefits that Named Executive Officers other than Mr. Skidmore are entitled to under the Pension Plan and SERP. Mr. Skidmore joined us in August 2013 and accordingly is not yet entitled to retirement benefits under this plan.

For a discussion of the material terms and conditions of the Pension Plan and the SERP, see “Compensation Discussion and Analysis.”

The present value of accumulated benefits is determined in accordance with the same assumptions outlined in Note 10 of our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for the fiscal year ended August 31, 2013.

•Discount rate of 4.70%

•RP-2000 Combined Healthy Participant mortality table (post-decrement only);

Each Named Executive Officer is assumed to retire at the earliest retirement age at which unreduced benefits are available (age 65). The early retirement benefit under the cash balance plan formula is equal to the participant's account balance; and

•Payments under the cash balance formula of the Pension Plan assume a lump sum payment. SERP benefits are payable as a lump sum.

The normal form of benefit for a single employee is a life only annuity, and for a married employee the normal form of benefit is a 50% joint and survivor annuity. Other annuity forms are also available on an actuarial equivalent basis. A lump sum option is also available.

All Named Executive Officers retirement benefits at normal retirement age will be equal to their accumulated benefits under the Pension Plan and SERP, as described under “Compensation Discussion and Analysis”.

2013 Nonqualified Deferred Compensation Table

Name	Executive	Registrant	Aggregate	Aggregate	Aggregate
		Contributions	Earnings	Withdrawals/	Balance

	Contributions in in Last Fiscal Year (3)	Last Fiscal Year (1)	in Last Fiscal Year (4)	Distributions at Last Fiscal Year End (1),(2)	
Carl Casale	\$0	\$2,397,789	\$176,192	\$0	\$5,024,224
Mark Palmquist	0	978,774	180,523	0	4,539,765
Jay Debertin	709,983	874,825	420,784	0	9,829,180
John McEnroe	415,000	503,078	190,275		4,968,684
David Kastelic	0	704,117	155,163	0	3,976,193
Patrick Kluempke	38,679	739,008	183,146	0	4,674,968

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The above table shows the Deferred Compensation benefits that Named Executive Officers other than Mr. Skidmore are entitled. Mr. Skidmore joined us in August 2013 and accordingly is not yet entitled to benefits under this plan.

- Contributions are made by CHS into the Deferred Compensation Plan on behalf of Named Executive Officers. Amounts include LTIP, retirement contributions on amounts exceeding IRS compensation limits, Profit Sharing, and 401(k) match. The amounts reported were made in early fiscal 2013 based on fiscal
- (1) 2012 results. These results are also included in amounts reported in the fiscal 2013 Summary Compensation Table: Carl Casale, \$246,711; Mark Palmquist, \$118,850; Jay Debertin, \$108,303; John McEnroe, \$88,250; David Kastelic, \$103,550; and Patrick Kluempke, \$88,393.
- Amounts vary in accordance with individual pension plan provisions and voluntary employee deferrals and withdrawals. These amounts include rollovers, voluntary salary and voluntary incentive plan contributions from predecessor plans with predecessor employers that have increased in value over the course of the executive's career. Named Executive Officers may defer up to 30% of their base salary and up to 100% of their annual variable pay to the Deferred Compensation Plan. Earnings on amounts deferred under the plan
- (2) are determined based on the investment election made by the Named Executive Officer from five market based notional investments with a varying level of risk selected by CHS, and a fixed rate fund. The notional investment returns for the fiscal year were as follows: Vanguard Prime Money Market, .07% ; Vanguard Life Strategy income, 1.28%; Vanguard Life Strategy Conservative Growth, 5.28%; Vanguard Life Strategy Moderate Growth, 9.46%; Vanguard Life Strategy Growth, 13.68%; and the Fixed Rate was 4.18%.

Named Executive Officers may change their investment election daily. Payments of amounts deferred are made in accordance with elections by the Named Executive Officer and in accordance with Section 409A under the Internal Revenue Code. Payments under the Deferred Compensation Plan may be made at a specified date elected by the Named Executive Officer or deferred until retirement, disability, or death. Payments would be made in a lump sum. In the event of retirement, the Named Executive Officer can elect to receive payments either in a lump sum or annual installments up to 10 years.

- (3) Includes amounts deferred from salary and annual incentive pay reflected in the Summary Compensation Table.

- (4) The amounts in this column include the change in value of the balance, not including contributions made by the Named Executive Officer. Amounts include the following above market earnings in 2013 that are also reflected in the Summary Compensation Table: Mr. Casale- \$48,472; Mr. Kastelic- \$47,454; Mr. Palmquist- \$47,445; Mr. Debertin- \$125,271; Mr. Kluempke- \$56,277; Mr. McEnroe- \$53,702

Post Employment

The CEO is covered by an employment agreement that provides for severance in the event his employment is terminated by us without cause or by him with "good reason." Severance consists of two times base pay, two times target annual variable pay, a prorated portion of his unpaid annual variable award for the fiscal year in which the termination occurred, and two years of health and welfare benefits substantially similar to those he was receiving prior to termination. In addition, Mr. Casale would be entitled to acceleration of any unpaid Replacement Cash Payments as described above under the heading "Agreements with Named Executive Officers." Mr. Casale's agreement contains two year non-solicitation and non-compete provisions. Payments for Mr. Casale would be made in three equal installments over a two-year period.

Mr. Skidmore's term sheet provides for severance in the event his employment is terminated by us without cause, or by his with "good reason", in the amount of one year of base pay and prorated annual variable pay in addition to normal separation benefits such as accrued and unpaid Paid Time Off .

All other Named Executive Officers (other than Mr. Kluempke, who retired as of March 13, 2013) are covered by a broad-based employee severance program which provides two weeks of pay per year of service with a 12 month cap.

In accordance with their years of service and current base pay levels, the Named Executive Officers' severance pay would have been as follows had they been terminated by us without cause or terminated their employment for good reason as of the last business day of fiscal 2013:

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Carl Casale (1)	\$4,109,570
David Kastelic	\$427,846
Timothy Skidmore	\$450,000
Mark Palmquist	\$669,500
Jay Debertin	\$616,200
John McEnroe	\$600,000
Patrick Kluempke (2)	\$515,721

(1) These numbers include the value of health and welfare insurance based on current monthly rates.

Mr. Kluempke retired effective March 31, 2013 and entered into a separation agreement with us in connection with his retirement. The payments made to Mr. Kluempke pursuant to that agreement are reported in the Summary Compensation Table under the column "All Other Compensation."

There are no other severance benefits offered to our Named Executive Officers except for up to \$5,000 of outplacement assistance, which would be included as imputed income, and government mandated benefits such as COBRA. The method of payment would be a lump sum. Named Executive Officers not covered by employment agreements are not offered any special postretirement health and welfare benefits that are not offered to other similarly situated (i.e. age and service) salaried employees.

Mr. Casale is also covered by a change in control agreement under which a "qualifying termination" entitles Mr. Casale to a severance payment equal to 2.5 times the sum of Mr. Casale's base salary and target annual incentive compensation award, welfare benefit continuation for a period of 30 months and outplacement fees not to exceed \$30,000. In accordance with this agreement and his current base salary, Mr. Casale would have received the following payment had there been a "qualifying termination" of his employment on the last business day of fiscal 2013.

Carl Casale (1)	\$5,166,963
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(1) This number includes the value of health insurance based on current monthly rates.

Director Compensation

Overview

The Board of Directors met monthly during the year ended August 31, 2013. Through August 31, 2013, each director was provided annual compensation of \$66,000, paid in 12 monthly payments, plus actual expenses and travel allowance, with the Chairman of the Board receiving additional annual compensation of \$18,000, and the First Vice Chairman, the Secretary-Treasurer and all board committee chairs receiving an additional annual compensation of \$3,600. Each director receives a per diem of \$500 plus actual expenses and travel allowance for each day spent at meetings other than regular board meetings and the CHS Annual Meeting. The number of days per diem may not exceed 55 days annually, except that the Chairman of the Board is exempt from this limit. Beginning in fiscal 2014, each director will be provided annual compensation of \$69,000, paid in 12 monthly payments, plus actual expenses and travel allowance, with the Chairman of the Board receiving additional annual compensation of \$18,000, the First Vice Chairman and the Secretary-Treasurer receiving an additional annual compensation of \$3,600 and all board committee chairs receiving an additional annual compensation of \$6,000.

Further, in an effort to align the interests of the board and management, directors are eligible to participate in the deferred compensation plan. Other than direct contributions, company contributions are made based on ROE (ROAE beginning in fiscal 2014) to align the interest of directors, management and member owners. The ROAE performance goals of 8% to 20% are the same as described in the Executive Long-Term Incentive plan, resulting in deferred compensation plan credits ranging from \$5,000 to \$100,000 as detailed on the following pages.

Director Retirement and Healthcare Benefits

Members of the Board of Directors are eligible for certain retirement and healthcare benefits. The director retirement plan is a defined benefit plan and provides for a monthly benefit for the director's lifetime, beginning at age 60. Benefits are

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immediately vested and the monthly benefit is determined according to the following formula: \$250 times years of service on the board (up to a maximum of 15 years). Under no event will the benefit payment be payable for less than 120 months. Payment shall be made to the retired director's beneficiary in the event of the director's death before 120 payments are made. Prior to 2005, directors could elect to receive their benefit as an actuarial equivalent lump sum. In order to comply with IRS requirements, directors were required in 2005 to make a one-time irrevocable election whether to receive their accrued benefit in a lump sum or a monthly annuity upon retirement. If the lump sum was elected, the director would commence benefits upon expiration of board term.

Effective August 31, 2011, future accruals under the director retirement plan were frozen. Directors elected after that date are not eligible for benefits under this plan.

Retirement benefits are funded by a rabbi trust, with a balance at August 31, 2013 of \$8.6 million. The Board of Director's intent is to fully fund benefits through the rabbi trust.

Directors of CHS serving as of September 1, 2005, and their eligible dependents, are eligible to participate in the company's medical, life, dental, vision and hearing plans. CHS will pay 100% of the medical premium for the director and eligible dependents until the director is eligible for Medicare. Term life insurance cost is paid by the director. Retired directors and their dependents are eligible to continue medical and dental insurance with the premiums paid by CHS after they leave the Board. In the event a director's coverage ends due to death or Medicare eligibility, CHS will pay 100% of the premium for the eligible spouse and eligible dependents until the spouse reaches Medicare age or upon death, if earlier.

New directors elected on or after December 1, 2006, and their eligible dependents, are eligible to participate in our medical, dental, vision and hearing plans. CHS will pay 100% of the premium for the director and eligible dependents until the director is eligible for Medicare. In the event a director leaves the Board prior to Medicare eligibility, premiums will be shared based on the following schedule:

Years of Service	Director	CHS	
Up to 3	100	% 0	%
3 to 6	50	% 50	%
6+	0	% 100	%

CHS Inc. Deferred Compensation Plan

Directors are eligible to participate in the Deferred Compensation Plan. Each participating director may elect to defer up to 100% of his or her monthly director fees into the Deferred Compensation Plan. This must be done prior to the beginning of the calendar year in which the fees will be earned, or in the case of newly elected directors, upon election to the Board. The deferral election must occur prior to the beginning of the calendar year in which the compensation will be earned. During fiscal 2013, the following directors deferred board fees pursuant to the Deferred Compensation Plan: Mr. Erickson, Mr. Hasnedl, Mr. Knecht, Mr. Malesich, Mr. Mulcahey, Mr. Riegel and Mr. Toelle.

Benefits are funded in a rabbi trust. The amount of deferred compensation plan rabbi trust reported elsewhere in this report includes amounts deferred by the directors.

Each year we will credit an amount to each Director's retirement plan account under the Deferred Compensation Plan. The amount that will be credited is based on CHS cumulative ROE over a three-year period:

Amount Credited	ROE Performance
\$50,000 (Maximum)	14% Return on CHS Equity
\$25,000 (Target)	10% Return on CHS Equity
\$5,000 (Minimum)	8% Return on CHS Equity
\$0	Below 8% Return on CHS Equity

The fiscal 2013 credit to each director's Retirement Plan Account was determined based on the ROE for fiscal years 2011, 2012, and 2013 and is reflected in the Directors Compensation Table. The fiscal 2014 credit will be based on ROAE.

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During fiscal 2013 the Executive Committee of the CHS Board of Directors utilized a third party consultant, Towers Watson, to conduct an assessment of the Board of Directors' compensation program. The committee reviewed the market data and concluded that the current compensation programs were not aligned with the market. Based on the findings and an effort to align the Executive and Board of Director strategic goals and outcomes, the committee recommended and the CHS Board of Directors approved expansion of the three year cumulative ROAE performance goals which will provide additional contributions to each Director's retirement plan account under the Deferred Compensation Plan for above market performance between 14% and 20% ROAE, beginning in 2014 (which will be based on the fiscal 2012-2014 performance period). These goals and associated contribution levels align with CHS Long Term Incentive Plan goals and related awards for superior performance in that the award for superior performance is four times the target award opportunity in both programs.

Amounts credited and defined performance goals for the fiscal 2012-2014 measurement period are defined below:

Amount Credited	ROAE Performance
\$100,000 (Superior Performance)	20% Return on Adjusted CHS Equity
\$50,000 (Maximum)	14% Return on Adjusted CHS Equity
\$25,000 (Target)	10% Return on Adjusted CHS Equity
\$5,000 (Minimum)	8% Return on Adjusted CHS Equity
\$0	Below 8% Return on Adjusted CHS Equity

Upon leaving the Board during the fiscal year, a director's credit for that partial fiscal year will be the target amount (\$25,000) prorated through the end of the month in which the director departs. Directors who join the CHS Board during the fiscal year will receive credit for that partial fiscal year based on the actual ROE for that fiscal year (or ROAE for fiscal 2014), prorated from the first of the month following the month in which the director joins the Board, to the end of the fiscal year.

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Director Compensation Table

Name(1)	Fees Earned or Paid in Cash (1)(2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (3)	All Other Compensation (4)(5)	Total
Donald Anthony	\$92,350	\$ 432	\$64,969	\$ 157,751
Robert Bass	80,500	1,431	65,835	147,766
David Bielenberg	87,700	108	64,750	152,558
Clinton Blew	83,250	432	75,264	158,946
Dennis Carlson (6)	89,800	432	65,377	155,609
Curt Eischens	83,100	432	65,112	148,644
Jon Erickson	84,000	411	52,372	136,783
Steven Fritel	90,600	218	67,736	158,554
Jerry Hasnedl (6)	94,500	729	67,485	162,714
David Johnsrud	61,500	—	10,249	71,749
David Kayser	79,250	432	74,702	154,384
Randy Knecht	80,700	991	65,471	147,162
Greg Kruger	85,500	432	72,747	158,679
Edward Malesich	86,500	—	49,051	135,551
Michael Mulcahey	28,250	121	79,943	108,314
Steve Riegel	80,900	435	63,794	145,129
Daniel Schurr	88,950	213	74,651	163,814
Michael Toelle	47,500	1,047	82,759	131,306

(1) Mr. Toelle resigned from the Board effective April 3, 2013. Mr. Johnsrud was elected to the Board effective December 6, 2012.

Of this amount, the following directors deferred the succeeding amounts to the Deferred Compensation (2) Plan: Mr. Erickson, \$14,000; Mr. Hasnedl, \$6,000; Mr. Knecht, \$12,000; Mr. Malesich \$43,167; Mr. Riegel, \$4,000; Mr. Mulcahey, \$2,000; Mr. Toelle, \$4,000.

(3) This column represents both changes in pension value and above-market earnings on deferred compensation. Change in pension value is the aggregate change in the actuarial present value of the director's benefit under their retirement program, and nonqualified earnings, if applicable. The change in pension value will vary by director based on several factors including age, service, pension benefit elected (lump sum or annuity - see above), discount rate and mortality factor used to calculate the benefit due.

Future accruals under the plan were frozen as of August 31, 2011 as stated above.

Above-market earnings represent earnings exceeding 120% of the Federal Reserve long-term rate as determined by the IRS on applicable funds. The following directors had above market earnings during the year: \$1,431 for Mr. Bass; \$108 for Mr. Bielenberg, \$432 for Mr. Anthony, Mr. Blew, Mr. Carlson, Mr. Eischens, Mr. Kayser, and Mr. Kruger; \$411 for Mr. Erickson; \$218 for Mr. Fritel; \$729 for Mr. Hasnedl; \$991 for Mr. Knecht; \$121 for Mr. Mulcahey; \$435 for Mr. Riegel; \$213 for Mr. Schurr; and \$1,047 for Mr. Toelle.

(4)

All other compensation includes health insurance premiums, conference and registration fees, meals and related spousal expenses for trips made with a director on CHS business. Total amounts vary primarily due to the variations in health insurance premiums which are due to the number of dependents covered.

Health care premiums paid for directors include: \$4,268 for Mr. Mulcahey; \$9,216 for Mr. Johnsrud; \$13,484 for Mr. Anthony, Mr. Bass, Mr. Bielenberg, Mr. Carlson, Mr. Eischens, Mr. Hasnedl, Mr. Knecht, Mr. Malesich, and Mr. Riegel; \$15,368 for Mr. Toelle; \$16,776 for Mr. Erickson and Mr. Fritel; \$20,056 for Mr. Kruger; \$23,344 for Mr. Blew, Mr. Kayser, and Mr. Schurr.

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All other compensation includes fiscal 2013 Director Retirement Plan Deferred Compensation Plan contributions; \$33,333 for Mr. Erickson and Mr. Malesich; \$58,333 for Mr. Mulcahey; \$66,667 for Mr. (5) Toelle; \$50,000 for all other Board Members. It also includes a fiscal 2013 distribution of \$15,500 to Mr. Mulcahey from the Directors Retirement Plan.

Made a one-time irrevocable retirement election in 2005 to receive a lump sum benefit under the director (6) retirement plan. All other directors will receive a monthly annuity upon retirement. The plan benefit was frozen as of August 31, 2011.

Compensation Committee Interlocks and Insider Participation

As noted above, the Board of Directors does not have a compensation committee. The Corporate Responsibility Committee recommends to the entire Board of Directors salary actions relative to our CEO. The entire Board of Directors determines the compensation and the terms of the employment agreement with our CEO. The CEO decides base compensation levels for the other Named Executive Officers with input from a third party consultant if necessary, and recommends for Board of Directors approval the annual and long-term incentive levels for the other Named Executive Officers

None of the directors are officers of CHS. See Item 13 for directors including Messrs. Eischens and Johnsrud that were a party to related person transactions.

Corporate Responsibility Committee Report

The Corporate Responsibility Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussion, the Corporate Responsibility Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

Respectfully submitted,

Curt Eischens, Chair
David Kayser
Edward Malesich
David Johnsrud

Compensation Risk Analysis

Our compensation policies and practices were reviewed by the appropriate corporate personnel in light of the requirements of Item 402(s) of Regulation S-K. A comprehensive risk assessment of our base and variable compensation programs was also conducted in fiscal 2010. This assessment included a thorough review of all of our significant compensation components including base pay, annual variable pay, long-term incentive pay, and profit sharing. This review confirmed that our executive compensation program establishes an appropriate set of rewards for achieving our strategic, business and financial objectives without encouraging inappropriate risk-taking. Specifically, all of our incentive plans, including our long-term incentive plan, our short-term incentive plan and our profit sharing plan have established maximum levels of performance and payouts. In fiscal 2013, the underlying plan design and practices had not changed and therefore, the previous risk assessment remains adequate in ensuring all risks remain mitigated. All plans are performance based and in

total are designed in such a manner as to limit unnecessary risk to CHS. As a result of our review and analysis, we have concluded that the risks arising from our compensation policies and practices are not reasonably likely to have a material adverse effect on CHS.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Beneficial ownership of equity securities as of August 31, 2013 is shown below:

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Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	% of Class (1)
8% Cumulative Redeemable Preferred Stock	Directors:	(Shares)	
	David Bielenberg	9,130	*
	Donald Anthony	100	*
	Robert Bass	120	*
	Clinton J. Blew	—	*
	Dennis Carlson (2)	710	*
	Curt Eischens	120	*
	Jon Erickson	300	*
	Steve Fritel	800	
	Jerry Hasnedl	975	*
	David Johnsrud	—	*
	David Kayser	—	*
	Randy Knecht (2)	863	*
	Gregory Kruger	—	*
	Edward Malesich	—	*
	Steve Riegel	245	*
	Daniel Schurr	—	*
	Named Executive Officers:		
	Carl M. Casale	—	*
	Jay Debertin (2)	1,200	*
	Timothy Skidmore	—	*
	John McEnroe	—	*
	Mark Palmquist	400	*
	Directors and executive officers as a group	14,963	*

(1) As of August 31, 2013, there were 12,272,003 shares of 8% Cumulative Redeemable Preferred Stock outstanding.

(2) Includes shares held by spouse, children and Individual Retirement Accounts (IRA).

* Less than 1%

We have no compensation plans under which our equity securities are authorized for issuance.

To our knowledge, there is no person who owns beneficially more than 5% of our 8% Cumulative Redeemable Preferred Stock.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Because our directors must be active patrons of CHS, or of an affiliated association, transactions between us and our directors are customary and expected. Transactions include the sales of commodities to us and the purchases of products and services from us, as well as patronage refunds and equity redemptions received from us. During the year ended August 31, 2013, the value of those transactions between a particular director

(and any immediate family member of a director, which includes any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law and any person (other than a tenant or employee) sharing the household of such director) and us in which the amount involved exceeded \$120,000 are shown below.

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Name	Product Sales and Purchases	Patronage Dividends
Donald Anthony	\$154,605	\$974
Dennis Carlson	183,984	4,973
Curt Eischens	528,721	7,301
Jon Erickson	537,707	11,087
Jerry Hasnedl	1,730,230	70,084
David Johnsrud	3,375,963	49,889
David Kayser	1,294,160	38,637

Review, Approval or Ratification of Related Party Transaction

Pursuant to its amended and restated charter, our Audit Committee has responsibility for the review and approval of all transactions between CHS and any related parties or affiliates of CHS, including its officers and directors, other than transactions in the ordinary course of business and on market terms as described above.

Related persons can include any of our directors or executive officers and any of their immediate family members, as defined by the Securities and Exchange Commission. In evaluating related person transactions, the committee members apply the same standards they apply to their general responsibilities as members of the committee of the Board of Directors. The committee will approve a related person transaction when, in its good faith judgment, the transaction is in the best interest of CHS. To identify related person transactions, each year we require our directors and officers to complete a questionnaire identifying any transactions with CHS in which the officer or director or their family members have an interest. In addition, we have a written policy in regard to related persons, included in our Corporate Compliance Code of Ethics that describes our expectation that all directors, officers and employees who may have a potential or apparent conflict of interest will notify our legal department.

Director Independence

We are a Minnesota cooperative corporation managed by a Board of Directors made up of 17 members. The Board of Directors is currently comprised of 16 directors due to the resignation of a director in fiscal 2013. Nomination and election of the directors is done by eight separate regions. In addition to meeting other requirements for directorship, candidates must reside in the region from which they are elected. Directors are elected for three-year terms. The terms of directors are staggered and no more than seven director positions are elected at an annual meeting. Nominations for director elections are made by the members at the region caucuses at our annual meeting. Neither the Board of Directors, nor management, of CHS participates in the nomination process. Accordingly, we have no nominating committee.

The following directors satisfy the definition of director independence set forth in the rules of the NASDAQ:

Jon Erickson	Donald Anthony
Robert Bass	David Bielenberg
Clinton J. Blew	Dennis Carlson
Steve Fritel	Jerry Hasnedl
David Kayser	Greg Kruger
Randy Knecht	Edward Malesich
Daniel Schurr	Steve Riegel

Michael Mulcahey

Michael Toelle

Further, although we do not need to rely upon an exemption for the Board of Directors as a whole, we are exempt pursuant to the NASDAQ rules from the NASDAQ director independence requirements as they relate to the makeup of the Board of Directors as a whole and the makeup of the committee performing the functions of a compensation committee. The NASDAQ exemption applies to cooperatives that are structured to comply with relevant state law and federal tax law and that do not have a publicly traded class of common stock. All of the members of our Audit Committee are independent.

Independence of CEO and Board Chairman Positions

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Our bylaws prohibit any employee of CHS from serving on the Board of Directors. Accordingly, our CEO may not serve as Chairman of the Board or in any Board capacity. We believe that this leadership structure creates independence between the Board and management and is an important check and balance in the governance of CHS.

Board of Directors Role in Risk Oversight

It is senior management's responsibility to identify, assess and manage the company's exposures to risk. Our Board of Directors plays an important and significant role in overseeing the overall risk management approach, including the approval of guidelines and policies that govern our risk management process. Our management and Board of Directors have jointly developed and documented a Risk Identification and Assessment analysis for CHS, which covers eleven broad categories of risk exposure. Each risk area is reviewed periodically by management with the Board of Directors and/or a committee of the Board, on an annual, semi-annual, quarterly or monthly basis, as appropriate to identify and evaluate key risks across the organization. The review includes an analysis by management of the continued applicability of the risk, our performance in managing or mitigating the risk, and possible additional or emerging risks to consider. We are currently developing a formal Enterprise Risk Management program intended to support integration of the risk assessment discipline and controls into major decision making and business processes. The Audit Committee will evaluate, and ultimately approve the Enterprise Risk Management framework and will be responsible for evaluating its effectiveness on an ongoing basis.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table shows the aggregate fees billed to us by PricewaterhouseCoopers LLP for services rendered during the fiscal years ended August 31, 2013 and 2012:

	2013	2012
	(Dollars in thousands)	
Audit Fees (1)	\$2,919	\$2,555
Audit-related Fees (2)	373	871
Tax Fees (3)	43	27
All Other Fees	—	—
Total	\$3,335	\$3,453

(1) Includes fees for audit of annual financial statements and reviews of the related quarterly financial statements, certain statutory audits and work related to filings of registration statements.

(2) Includes fees for employee benefit plan audits and due diligence on acquisitions.

(3) Includes fees related to tax compliance, tax advice and tax planning.

In accordance with the CHS Inc. Audit Committee Charter, as amended, our Audit Committee adopted the following policies and procedures for the approval of the engagement of an independent registered public accounting firm for audit, review or attest services and for pre-approval of certain permissible non-audit services, all to ensure auditor independence.

Our independent registered public accounting firm will provide audit, review and attest services only at the direction of, and pursuant to engagement fees and terms approved by our Audit Committee. Our Audit

Committee approves, in advance, all non-audit services to be performed by the independent auditors and the fees and compensation to be paid to the independent auditors. Our Audit Committee approved all of the services listed above in advance.

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PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) FINANCIAL STATEMENTS

The following financial statements and the Reports of Independent Registered Public Accounting Firms are filed as part of this Form 10-K.

<u>Report of Independent Registered Public Accounting Firm</u>	Page No. <u>F-1</u>
<u>Consolidated Balance Sheets as of August 31, 2013 and 2012</u>	<u>F-2</u>
<u>Consolidated Statements of Operations for the years ended August 31, 2013, 2012 and 2011</u>	<u>F-3</u>
Consolidated Statements of Comprehensive Income for the years ended August 31, 2013, 2012 and 2011	F-4
<u>Consolidated Statements of Changes in Equities for the years ended August 31, 2013, 2012 and 2011</u>	<u>F-5</u>
<u>Consolidated Statements of Cash Flows for the years ended August 31, 2013, 2012 and 2011</u>	<u>F-6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-7</u>

(a)(2) FINANCIAL STATEMENT SCHEDULES

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

	Balance at Beginning of Year	Additions: Charged to Costs and Expenses *	Deductions: Write-offs, net of Recoveries	Balance at End of Year
	(Dollars in thousands)			
Allowances for Doubtful Accounts				
2013	\$111,785	\$(13,130)	) \$(4,066	) \$94,589
2012	119,026	7,380	(14,621) 111,785
2011	99,535	31,792	(12,301) 119,026
*net of reserve adjustments				

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Report of Independent Registered Public Accounting Firm on

Financial Statement Schedule

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

Our audits of the consolidated financial statements referred to in our report dated November 7, 2013 appearing on page F-1 in this Annual Report on Form 10-K of CHS Inc. and subsidiaries also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Minneapolis, Minnesota
November 7, 2013

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(a)(3) EXHIBITS

- 2.1 Agreement and Plan of Merger among CHS Inc., Science Merger Sub Ltd. and Solbar Industries Ltd. (Incorporated by reference to our Current Report on Form 8-K, filed November 23, 2011).
- 3.1 Articles of Incorporation of CHS Inc., as amended. (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2006, filed January 11, 2007).
- 3.1A Amended Article III, Section 3(b) of Bylaws of CHS Inc. (Incorporated by reference to our Current Report on Form 8-K, filed May 5, 2010).
- 3.1B Amendment to the Bylaws of CHS Inc. (Incorporated by reference to our Current Report on Form 8-K, filed December 7, 2010).
- 3.2 Bylaws of CHS Inc. (Incorporated by reference to our Registration Statement on Form S-1 (File No. 333-156255), filed December 17, 2008).
- 4.1 Resolution Creating a Series of Preferred Equity to be Designated 8% Cumulative Redeemable Preferred Stock. (Incorporated by reference to Amendment No. 1 to our Registration Statement on Form S-2 (File No. 333-101916), dated January 13, 2003).
- 4.2 Form of Certificate Representing 8% Cumulative Redeemable Preferred Stock. (Incorporated by reference to Amendment No. 2 to our Registration Statement on Form S-2 (File No. 333-101916), dated January 23, 2003).
- 4.3 Unanimous Written Consent Resolution of the Board of Directors Amending the Amended and Restated Resolution Creating a Series of Preferred Equity to be Designated 8% Cumulative Redeemable Preferred Stock. (Incorporated by reference to Amendment No. 2 to our Registration Statement on Form S-2 (File No. 333-101916), dated January 23, 2003).
- 4.4 Unanimous Written Consent Resolution of the Board of Directors Amending the Amended and Restated Resolution Creating a Series of Preferred Equity to be Designated 8% Cumulative Redeemable Preferred Stock to change the record date for dividends. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2003, filed July 2, 2003).
- 4.5 Resolution Amending the Terms of the 8% Cumulative Redeemable Preferred Stock to Provide for Call Protection. (Incorporated by reference to our Current Report on Form 8-K, filed on July 19, 2013.)
- 4.6 Amended and Restated Resolution of the Board of Directors of CHS Inc. Creating and Series of Preferred Equity to be Designated Class B Cumulative Redeemable Stock. (Incorporated by reference to our Registration Statement on Form S-1A (File No. 333-190019), filed September 13, 2013).
- 4.7 Written Action of the Board of Directors of CHS Inc. Relating to the Terms of the Class B Preferred Stock. (Incorporated by reference to our Registration Statement on Form S-1A (File No. 333-190019), filed September 13, 2013).
- 4.8 Form of Certificate Representing Class B Preferred Stock. (Incorporated by reference to our Registration Statement on Form S-1A (File No. 333-190019), filed September 13, 2013).
- 10.1A Employment Agreement between CHS Inc. and Carl M. Casale, dated November 22, 2010 (Incorporated by reference to our Current Report on Form 8-K, filed November 22, 2010). (+)
- 10.1B Employment Agreement between CHS Inc. and Carl M. Casale dated November 6, 2013. (*) (+)
- 10.2A Change of Control Agreement between CHS Inc. and Carl M. Casale, dated November 22, 2010 (Incorporated by reference to our Current Report on Form 8-K, filed November 22, 2010). (+)
- 10.2B Amended and Restated Change in Control Agreement between CHS Inc. and Carl M. Casale dated November 6, 2013 (*) (+)
- 10.3 Cenex Harvest States Cooperatives Supplemental Savings Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2000, filed November 22, 2000). (+)
- 10.3A

- Amendment No. 3 to the CHS Inc. Supplemental Savings Plan. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2006, filed July 12, 2006). (+)
- 10.4 CHS Inc. Supplemental Executive Retirement Plan (2013 Restatement). (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2013, filed July 10, 2013). (+)
- 10.5 Cenex Harvest States Cooperatives Senior Management Compensation Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2000, filed November 22, 2000). (+)
- 10.6 Cenex Harvest States Cooperatives Executive Long-Term Variable Compensation Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2000, filed November 22, 2000). (+)
- 10.7 Cenex Harvest States Cooperatives Share Option Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004). (+)
- 10.7A Amendment to Cenex Harvest States Share Option Plan, dated June 28, 2001. (Incorporated by reference to our Registration Statement on Form S-2 (File No. 333-65364), filed July 18, 2001). (+)
- 10.7B Amendment No. 2 to Cenex Harvest States Share Option Plan, dated May 2, 2001. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004). (+)

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10.7C	Amendment No. 3 to Cenex Harvest States Share Option Plan, dated June 4, 2002. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004). (+)
10.7D	Amendment No. 4 to Cenex Harvest States Share Option Plan, dated April 6, 2004. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004). (+)
10.8	CHS Inc. Share Option Plan Option Agreement. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004). (+)
10.9	CHS Inc. Share Option Plan Trust Agreement. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004). (+)
10.9A	Amendment No. 1 to the Trust Agreement. (Incorporated by reference to our Form 10-K for the year ended August 31, 2004, filed November 18, 2004). (+)
10.10	CHS Inc. Nonemployee Director Retirement Plan. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2010, filed July 8, 2010). (+)
10.10A	Amendment No. 1 to the Nonemployee Director Retirement Plan (Incorporated by reference to our Form 10-K for the year ended August 31, 2011, filed November 14, 2011). (+)
10.10B	Amendment No. 2 to the Nonemployee Director Retirement Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2012, filed November 7, 2012). (+)
10.11	Trust Under the CHS Inc. Nonemployee Director Retirement Plan. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2010, filed July 8, 2010). (+)
10.12	CHS Inc. Special Supplemental Executive Retirement Plan. (Incorporated by reference to our Form 10-K for the year ended August 31, 2003, filed November 21, 2003). (+)
10.12A	Amendment No. 1 to the CHS Inc. Special Supplemental Executive Retirement Plan. (Incorporated by reference to our Form 10-Q for the quarterly period ended February 29, 2008, filed April 9, 2008). (+)
10.13	Consulting Agreement between CHS Inc. and Patrick Kluempke, dated January 17, 2013. (Incorporated by reference to our Current Report on Form 8-K, filed April 3, 2013).
10.14	\$225,000,000 Note Agreement (Private Placement Agreement) dated as of June 19, 1998 among Cenex Harvest States Cooperatives and each of the Purchasers of the Notes. (Incorporated by Reference to our Form 10-Q Transition Report for the period June 1, 1998 to August 31, 1998, filed October 14, 1998).
10.14A	First Amendment to Note Agreement (\$225,000,000 Private Placement), effective September 10, 2003, among CHS Inc. and each of the Purchasers of the notes. (Incorporated by reference to our Form 10-K for the year ended August 31, 2003, filed November 21, 2003).
10.15	Note Purchase Agreement and Series D & E Senior Notes dated October 18, 2002. (Incorporated by reference to our Form 10-K for the year ended August 31, 2002, filed November 25, 2002).
10.16	Amended and Restated Credit Agreement dated as of January 31, 2011, by and among National Cooperative Refinery Association, various lenders and CoBank, ACB. (Incorporated by reference to our Form 10-Q for the quarterly period ended February 28, 2011, filed April 8, 2011).
10.16A	Amendment No. 1 Amended and Restated Credit Agreement dated as of December 16, 2011, by and among National Cooperative Refinery Association, various lenders and CoBank, ACB. (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2011, filed January 11, 2012)
10.17	Note Purchase and Private Shelf Agreement between CHS Inc. and Prudential Capital Group dated as of April 13, 2004. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2004, filed July 12, 2004).
10.17A	Amendment No. 1 to Note Purchase and Private Shelf Agreement dated April 9, 2007, among CHS Inc., Prudential Investment Management, Inc. and the Prudential Affiliate parties (Incorporated by reference to our Form 10-Q for the quarterly period ended February 28, 2007 filed April 9, 2007).
10.17B	

- Amendment No. 2 to Note Purchase and Private Shelf Agreement and Senior Series J Notes totaling \$50 million issued February 8, 2008 (Incorporated by reference to our Current Report on Form 8-K filed February 11, 2008).
- 10.17C Amendment No. 3 to Note Purchase and Private Shelf Agreement, effective as of November 1, 2010 (Incorporated by reference to our Form 10-Q filed January 11, 2011).
- 10.18 Note Purchase Agreement for Series H Senior Notes (\$125,000,000 Private Placement) dated September 21, 2004. (Incorporated by reference to our Current Report on Form 8-K filed September 22, 2004).
- 10.19 CHS Inc. Deferred Compensation Plan Master Plan Document (2011 Restatement). (Incorporated by reference to our Registration Statement on Form S-8 (File No. 333-177326), filed October 14, 2011). (+)
- 10.19A Amendment No. 1 to Deferred Compensation Plan (2011 Restatement). (Incorporated by reference to our Form 10-K for the year ended August 31, 2012, filed November 7, 2012). (+)
- 10.19B Amendment No. 2 Deferred Compensation Plan (2011 Restatement). (Incorporated by reference to our Form 10-K for the year ended August 31, 2012, filed November 7, 2012). (+)
- 10.20 New Plan Participants 2008 Plan Agreement and Election Form for the CHS Inc. Deferred Compensation Plan (Incorporated by reference to our Form 10-K for the year ended August 31, 2009, filed November 10, 2009). (+)

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10.21	Beneficiary Designation Form for the CHS Inc. Deferred Compensation Plan (Incorporated by reference to our Form 10-K for the year ended August 31, 2009, filed November 10, 2009). (+)
10.22	Share Option Plan Participants 2005 Plan Agreement and Election Form. (Incorporated by reference to our Registration Statement on Form S-8 (File No. 333-129464), filed November 4, 2005). (+)
10.23	New Plan Participants 2011 Plan Agreement and Election Form for the CHS Inc. Deferred Compensation Plan (Incorporated by reference to our Registration Statement on Form S-8 (File No. 333-177326), filed October 14, 2011). (+)
10.24	New Plan Participants (Board of Directors) 2009 Plan Agreement and Election Form for the CHS Inc. Deferred Compensation Plan (Incorporated by reference to our Form 10-K for the year ended August 31, 2009, filed November 10, 2009). (+)
10.25	Loan Agreement (Term Loan) between CHS Inc. and European Bank for Reconstruction and Development, dated January 5, 2011 (Incorporated by reference to our Current Report on Form 8-K, filed January 18, 2011).
10.26	Revolving Loan Agreement between CHS Inc. and European Bank for Reconstruction and Development, dated November 30, 2010 (Incorporated by reference to our Current Report on Form 8-K, filed January 18, 2011).
10.27	City of McPherson, Kansas Taxable Industrial Revenue Bond Series 2006 registered to National Cooperative Refinery Association in the amount of \$325 million (Incorporated by reference to our Current Report on Form 8-K filed December 18, 2006).
10.28	Bond Purchase Agreement between National Cooperative Refinery Association, as purchaser, and City of McPherson, Kansas, as issuer, dated as of December 18, 2006 (Incorporated by reference to our Current Report on Form 8-K filed December 18, 2006).
10.29	Trust Indenture between City of McPherson, Kansas, as issuer, and Security Bank of Kansas City, Kansas City, Kansas, as trustee, dated as of December 18, 2006 (Incorporated by reference to our Current Report on Form 8-K filed December 18, 2006).
10.30	Lease agreement between City of McPherson, Kansas, as issuer, and National Cooperative Refinery Association, as tenant, dated as of December 18, 2006 (Incorporated by reference to our Current Report on Form 8-K filed December 18, 2006).
10.31	Commercial Paper Placement Agreement by and between CHS Inc. and M&I Marshall & Ilsley Bank dated October 30, 2006 (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2006, filed January 11, 2007).
10.32	Commercial Paper Dealer Agreement by and between CHS Inc. and SunTrust Capital Markets, Inc. dated October 6, 2006 (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2006, filed January 11, 2007).
10.33	Note Purchase Agreement (\$400,000,000 Private Placement) and Series I Senior Notes dated as of October 4, 2007 (Incorporated by reference to our Current Report on Form 8-K filed October 4, 2007).
10.34	Agreement Regarding Distribution of Assets, by and among CHS Inc., United Country Brands, LLC, Land O'Lakes, Inc. and Winfield Solutions, LLC, made as of September 4, 2007. (Incorporated by reference to our Form 10-K for the year ended August 31, 2008, filed November 20, 2007).
10.35	\$150 Million Term Loan Credit Agreement by and between CHS Inc., CoBank, ACB and the Syndication Parties dated as of December 12, 2007 (Incorporated by reference to our Registration Statement on Form S-1 (File No. 333-148091), filed December 14, 2007).
10.35A	First Amendment to \$150 Million Term Loan Credit Agreement by and between CHS Inc., CoBank, ACB and the Syndication Parties dated as of May 1, 2008 (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2008, filed July 10, 2008).
10.35B	

- Second Amendment to \$150 Million Term Loan Credit Agreement by and between CHS Inc., CoBank, ACB and the Syndication Parties dated as of June 2, 2010 (Incorporated by reference to our Current Report on Form 8-K, filed June 3, 2010).
- 10.36 Series 2008-A Supplement dated as of November 21, 2008 (to Base Indenture dated as of August 10, 2005) between Cofina Funding, LLC, as Issuer, and U.S. Bank National Association, as Trustee (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).
- 10.37 Amended and Restated Base Indenture, dated as of December 23, 2010, between Cofina Funding, LLC, as Issuer, and U.S. Bank National Association, as Trustee (Incorporated by reference to our Current Report on Form 8-K, filed December 28, 2010).
- 10.37A Amendment No. 1 to Amended and Restated Base Indenture, dated as of December 23, 2010, between Cofina Funding, LLC, as Issuer, and U.S. Bank National Association, as Trustee. (Incorporated by reference to our Form 10-Q for the quarterly period ended February 29, 2012, filed April 11, 2012).
- 10.38 Series 2010-A Supplement, dated as of December 23, 2010, by and among Cofina Funding, LLC, as Issuer, and U.S. National Bank Association, as Trustee, to the Base Indenture, dated as of December 23, 2010, between the Issuer and the Trustee (Incorporated by reference to our Current Report on Form 8-K, filed December 28, 2010).
- 10.39 Lockbox Agreement dated August 10, 2005 between Cofina Financial, LLC and M&I Marshall & Ilsley Bank (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).

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10.40	Purchase and Sale Agreement dated as of August 10, 2005 between Cofina Funding, LLC, as Purchaser and Cofina Financial, LLC, as Seller (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).
10.41	Custodian Agreement dated August 10, 2005 between Cofina Funding, LLC, as Issuer; U.S. Bank National Association, as Trustee; and U.S. Bank National Association, as Custodian (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).
10.42	Servicing Agreement dated as of August 10, 2005 among Cofina Funding, LLC, as Issuer; Cofina Financial, LLC, as Servicer; and U.S. Bank National Association, as Trustee (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).
10.43	Series 2008-A Cofina Variable Funding Asset-Backed Note No. 4 (Incorporated by reference to our Current Report on Form 8-K, filed November 17, 2010).
10.44	Amended and Restated Loan Origination and Participation Agreement dated as of September 1, 2011, by and among AgStar Financial Services, PCA, d/b/a ProPartners Financial, CHS Capital, LLC. (Incorporated by reference to our Form 10-K for the year ended August 31, 2011, filed November 14, 2011).
10.44A	Amendment No. 1 to Amended and Restated Loan Origination and Participation Agreement dated as of September 1, 2011, by and among AgStar Financial Services, PCA, d/b/a ProPartners Financial, CHS Capital, LLC. (Incorporated by reference to our Form 10-K for the year ended August 31, 2012, filed November 7, 2012).
10.45	Note Purchase Agreement (Series 2010-A), dated as of December 23, 2010, among Cofina Funding, LLC, as Issuer, Nieuw Amsterdam Receivables Corporation, as the Conduit Purchaser, Cooperatieve Centrale Raiffeisen- Boerenleenbank, B.A. “Rabobank Nederland”, New York Branch, as Funding Agent, and the Financial Institutions from time to time parties hereto, as Committed Purchasers (Incorporated by reference to our Current Report on Form 8-K, filed December 28, 2010).
10.45A	Amendment No. 1 to Note Purchase Agreement (Series 2010-A) dated as of April 13, 2011 by and among Cofina Funding, LLC and the Issuer, Nieuw Amsterdam Receivables Corporation, as the Conduit Purchaser, and Cooperatieve Centrale Raiffeisen-BoerenleenBank B.A., “Rabobank Nederland”, New York Branch, as the Funding Agent and as a Committed Purchaser (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2011, filed July 8, 2011).
10.45B	Amendment No. 2 to Note Purchase Agreement (Series 2010-A) dated as of June 17, 2011 by and among Cofina Funding, LLC and the Issuer, Nieuw Amsterdam Receivables Corporation, as the Conduit Purchaser, and Cooperatieve Centrale Raiffeisen-BoerenleenBank B.A., “Rabobank Nederland”, New York Branch, as the Funding Agent and as a Committed Purchaser (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2011, filed July 8, 2011).
10.45C	Amendment No. 3 to Note Purchase Agreement (Series 2010-A) dated as of April 11, 2012, by and among Cofina Funding, LLC and the Issuer, Nieuw Amsterdam Receivables Corporation, as the Conduit Purchaser, and Cooperatieve Centrale Raiffeisen-BoerenleenBank B.A., “Rabobank Nederland”, New York Branch, as the Funding Agent and as a Committed Purchaser. (Incorporated by reference to our Form 10-K for the year ended August 31, 2012, filed November 7, 2012).
10.46	Note Purchase Agreement (Series 2008-A) dated as of November 21, 2008 among Cofina Funding, LLC, as Issuer; Victory Receivables Corporation, as the Conduit Purchaser; The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Funding Agent for the Purchasers; and the Financial Institutions from time to time parties thereto (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2008, filed January 13, 2009).
10.46A	

- Amendment No. 1 to Note Purchase Agreement (Series 2008-A) dated February 25, 2009, by and among Cofina Funding, LLC as the Issuer; Victory Receivables Corporation, as the Conduit Purchaser; and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as the Funding Agent and as a Committed Purchaser (Incorporated by reference to our Current Report on Form 8-K, filed March 2, 2009).
- 10.46B Amendment No. 2 to Note Purchase Agreement (Series 2008-A) dated November 20, 2009, by and among Cofina Funding, LLC as the Issuer; Victory Receivables Corporation, as the Conduit Purchaser; and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as the Funding Agent and as a Committed Purchaser (Incorporated by reference to our Registration Statement on Form S-1 (File No. 333-163608), filed December 9, 2009).
- 10.46C Amendment No. 3 to Note Purchase Agreement (Series 2008-A) dated as of November 12, 2010, by and among Cofina Funding, LLC and the Issuer, Victory Receivables Corporation, as the Conduit Purchaser, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as the Funding Agent and as a Committed Purchaser (Incorporated by reference to our Current Report on Form 8-K, filed November 17, 2010).
- 10.46D Amendment No. 4 to Note Purchase Agreement (Series 2008-A) dated as of December 23, 2010, by and among Cofina Funding, LLC and the Issuer, Victory Receivables Corporation, as the Conduit Purchaser, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as the Funding Agent and as a Committed Purchaser.
- 10.46E Amendment No. 5 to Note Purchase Agreement (Series 2008-A) dated as of April 13, 2011, by and among Cofina Funding, LLC and the Issuer, Victory Receivables Corporation, as the Conduit Purchaser, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as the Funding Agent and as a Committed Purchaser (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2011, filed July 8, 2011).

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10.46F	Amendment No. 6 to Note Purchase Agreement (Series 2008-A) dated as of April 11, 2012, by and among Cofina Funding, LLC and the Issuer, Victory Receivables Corporation, as the Conduit Purchaser, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as the Funding Agent and as a Committed Purchaser. (Incorporated by reference to our Form 10-K for the year ended August 31, 2012, filed November 7, 2012).
10.47	Stock Transfer Agreement, dated as of November 17, 2011, between CHS Inc. and GROWMARK, Inc. (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2011, filed January 11, 2012).
10.48	Stock Transfer Agreement, dated as of November 17, 2011, between CHS Inc. and MFA Oil company. (Incorporated by reference to our Form 10-Q for the quarterly period ended November 30, 2011, filed January 11, 2012).
10.49	Amended and Restated Limited Liability Company Agreement, dated February 1, 2012, between CHS Inc. and Cargill, Incorporated. (Incorporated by reference to our Current Report on Form 8-K, filed February 1, 2012).
10.50	Note Purchase Agreement between CHS Inc. and certain accredited investors (\$500,000,000) dated as of June 9, 2011(Incorporated by reference to our Current Report on Form 8-K, filed June 13, 2011).
10.51	Joint venture agreement among CHS Inc., Cargill, Incorporated, and ConAgra Foods, Inc., dated March 4, 2013. (Incorporated by reference to our Form 10-Q for the quarterly period ended May 31, 2013, filed July 10, 2013).
10.52	2013 Credit Agreement (5-year Revolving Loan) dated as of June 26, 2013 between CHS Inc. and CoBank, ACB, as administrative agent for all syndication parties thereunder, as bid agent, as the letter of credit bank, and as a syndication party thereunder, and the other syndication parties party thereto. (Incorporated by reference to our Current Report on Form 8-K, filed July 2, 2013).
10.53	Resolutions Amending the Long-Term Incentive Plan. (Incorporated by reference to our Current Report on Form 8-K, filed September 3, 2013). (+)
10.54	Pre-Export Credit Agreement dated as of September 24, 2013 between CHS Agronegocio Industria e Comercio Ltda., as borrower, CHS Inc., as guarantor, and Credit Agricole Corporate and Investment Bank (Credit Agricole), as administrative agent, Credit Agricole and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint lead arrangers and joint bookrunners, and the other syndication parties thereto from time to time. (Incorporated by reference to our Current Report on Form 8-K, filed October 2, 2013).
10.55	Succession Planning Letter Agreement between CHS Inc. and John McEnroe dated November 6, 2013. (*) (+)
21.1	Subsidiaries of the Registrant. (*)
23.1	Consent of Independent Registered Public Accounting Firm. (*)
24.1	Power of Attorney. (*)
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (*)
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (*)
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (*)
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (*)

(*) Filed herewith

(+) Indicates management contract or compensation plan or agreement

(b) EXHIBITS

The exhibits shown in Item 15(a)(3) above are being filed herewith.

(c) SCHEDULES

None.

SUPPLEMENTAL INFORMATION

As a cooperative, we do not utilize proxy statements.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 7, 2013.

CHS INC.

By: /s/ Carl M. Casale
Carl M. Casale
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on November 7, 2013:

Signature	Title
/s/ Carl M. Casale Carl M. Casale	President and Chief Executive Officer (principal executive officer)
/s/ Timothy Skidmore Timothy Skidmore	Executive Vice President and Chief Financial Officer (principal financial officer)
/s/ Theresa Egan Theresa Egan	Vice President, Accounting and Corporate Controller (principal accounting officer)
David Bielenberg*	Chairman of the Board of Directors
Don Anthony*	Director
Robert Bass*	Director
Clinton J. Blew*	Director
Dennis Carlson*	Director
Curt Eischens*	Director
Jon Erickson*	Director
Steve Fritel*	Director

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Jerry Hasnedl*	Director
David Kayser*	Director
Randy Knecht*	Director
Greg Kruger*	Director
Edward Malesich*	Director
David Johnsrud*	Director
Steve Riegel*	Director
Dan Schurr*	Director
*By /s/ Carl M. Casale Carl M. Casale Attorney-in-fact	

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive income, of changes in equities, and of cash flows present fairly, in all material respects, the financial position of CHS Inc. and its subsidiaries at August 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2013, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Minneapolis, Minnesota
November 7, 2013

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CONSOLIDATED BALANCE SHEETS

	August 31	
	2013	2012
	(Dollars in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,808,532	\$314,029
Receivables	3,270,311	3,590,742
Inventories	2,664,735	3,203,972
Derivative assets	499,890	1,071,778
Margin deposits	340,905	1,138,535
Other current assets	326,387	347,970
Total current assets	8,910,760	9,667,026
Investments	765,946	673,388
Property, plant and equipment	3,171,404	2,786,324
Other assets	656,160	518,286
Total assets	\$13,504,270	\$13,645,024
LIABILITIES AND EQUITIES		
Current liabilities:		
Notes payable	\$889,312	\$803,622
Current portion of long-term debt	156,612	108,211
Current portion of mandatorily redeemable noncontrolling interest	65,981	65,981
Customer margin deposits and credit balances	299,364	808,047
Customer advance payments	432,097	685,520
Checks and drafts outstanding	185,660	205,060
Accounts payable	2,416,038	2,236,866
Derivative liabilities	465,066	849,859
Accrued expenses	485,070	476,589
Dividends and equities payable	390,153	578,809
Total current liabilities	5,785,353	6,818,564
Long-term debt	1,450,420	1,332,142
Mandatorily redeemable noncontrolling interest	209,419	268,726
Other liabilities	906,331	752,269
Commitments and contingencies		
Equities:		
Preferred stock	319,368	319,368
Equity certificates	3,588,346	3,109,616
Accumulated other comprehensive loss	(156,867)	(232,587)
Capital reserves	1,380,361	1,258,944
Total CHS Inc. equities	5,131,208	4,455,341
Noncontrolling interests	21,539	17,982
Total equities	5,152,747	4,473,323
Total liabilities and equities	\$13,504,270	\$13,645,024

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

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Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended August 31		
	2013	2012	2011
	(Dollars in thousands)		
Revenues	\$44,479,857	\$40,599,286	\$36,915,834
Cost of goods sold	42,706,205	38,588,143	35,512,988
Gross profit	1,773,652	2,011,143	1,402,846
Marketing, general and administrative	553,623	498,233	438,498
Operating earnings	1,220,029	1,512,910	964,348
(Gain) loss on investments	(182)	) 5,465	(126,729)
Interest, net	231,567	193,263	74,835
Equity income from investments	(97,350)	) (102,389)	(131,414)
Income before income taxes	1,085,994	1,416,571	1,147,656
Income taxes	89,666	80,852	86,628
Net income	996,328	1,335,719	1,061,028
Net income attributable to noncontrolling interests	3,942	75,091	99,673
Net income attributable to CHS Inc.	\$992,386	\$1,260,628	\$961,355

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

CHS Inc. and Subsidiaries

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Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Years Ended August 31		
	2013	2012	2011
	(Dollars in thousands)		
Net income	\$996,328	\$1,335,719	\$1,061,028
Other comprehensive income (loss), net of tax:			
Postretirement benefit plan activity, net of tax expense (benefit) of \$(21,710), \$17,776 and \$(30,847) in 2013, 2012 and 2011, respectively	63,116	(38,216)	) 28,001
Unrealized net gain on available for sale investments, net of tax expense of \$603, \$199 and \$445 in 2013, 2012 and 2011, respectively	979	355	716
Cash flow hedges, net of tax expense (benefit) of \$9,551, \$449 and \$(640) in 2013, 2012 and 2011, respectively	15,491	586	(1,005)
Foreign currency translation adjustment, net of tax (benefit) expense of \$(2,383), \$(3,699) and \$2,842 in 2013, 2012 and 2011, respectively	(3,866)	) (5,855)	) 4,464
Other comprehensive income (loss), net of tax	75,720	(43,130)	) 32,176
Comprehensive income	1,072,048	1,292,589	1,093,204
Less: comprehensive income attributable to noncontrolling interests	3,942	75,091	101,458
Comprehensive income attributable to CHS Inc.	\$1,068,106	\$1,217,498	\$991,746

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

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Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITIES

	For the Years Ended August 31, 2013, 2012 and 2011							
	Equity Certificates	Nonpatronage	Patronage	Preferred	Accumulated			
	Capital	Equity	Refunds	Stock	Other Comprehensive Loss	Capital Reserves	Noncontrolling Interests	Total Equities
	Equity Certificates	Certificates						
	(Dollars in thousands)							
Balances, August 31, 2010	\$2,119,216	\$24,573	\$257,725	\$319,368	\$(205,267)	\$820,049	\$268,787	\$3,604,451
Dividends and equity retirement determination	67,569		138,775			4,091		210,435
Patronage distribution	260,858		(396,500)			(5,871)		(141,513)
Equities retired (60,956)		(237)						(61,193)
Equities issued 6,453								6,453
Preferred stock dividends						(24,544)		(24,544)
Distributions to noncontrolling interests							(18,184)	(18,184)
Changes in dividends and equities payable							(2,787)	(2,787)
Other, net	(391)	(12)				(837)	454	(786)
Comprehensive income:								
Net income			674,678			286,677	99,673	1,061,028
Other comprehensive income					30,391		1,785	32,176
Total comprehensive income								1,093,204
Dividends and equities payable	(136,000)		(260,125)			(4,091)		(400,216)
Balances, August 31, 2011	2,256,749	24,324	414,553	319,368	(174,876)	1,075,474	349,728	4,265,320
Dividends and equity retirement	136,000		260,125			4,091		400,216

determination								
Patronage distribution	415,584		(674,678)			(1,572)		(260,666)
Equities retired (145,500)	(222)							(145,722)
Equities issued	29,155							29,155
Preferred stock dividends						(24,544)		(24,544)
Distributions to noncontrolling interests							(78,602)	(78,602)
Changes in dividends and equities payable							5,544	5,544
Purchase of noncontrolling interests					(14,581)	(82,138)	(337,145)	(433,864)
Other, net	(1,262)	(356)				958	3,366	2,706
Comprehensive income:								
Net income			969,862			290,766	75,091	1,335,719
Other comprehensive loss					(43,130)			(43,130)
Total comprehensive income								1,292,589
Dividends and equities payable	(195,999)		(378,719)			(4,091)		(578,809)
Balances, August 31, 2012	2,494,727	23,746	591,143	319,368	(232,587)	1,258,944	17,982	4,473,323
Dividends and equity retirement determination	195,999		378,719			4,091		578,809
Patronage distribution	595,022		(969,862)			(6,107)		(380,947)
Equities retired (193,181)	(232)							(193,413)
Equities issued	18,211							18,211
Preferred stock dividends						(24,544)		(24,544)
Distributions to noncontrolling interests							(1,442)	(1,442)
Other, net	(1,241)	(29)				1,068	1,057	855
Comprehensive income:								
Net income			841,386			151,000	3,942	996,328
					75,720			75,720

Other comprehensive income									
Total comprehensive income								1,072,048	
Dividends and equities payable	(101,293)		(284,769)			(4,091)		(390,153)	
Balances, August 31, 2013	\$3,008,244	\$23,485	\$556,617	\$319,368	\$(156,867)	\$1,380,361	\$21,539	\$5,152,747	

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

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Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended August 31		
	2013	2012	2011
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income including noncontrolling interests	\$996,328	\$1,335,719	\$1,061,028
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	241,791	219,632	220,694
Amortization of deferred major repair costs	34,847	33,641	30,474
Income from equity investments	(97,350)	(102,389)	(131,414)
Distributions from equity investments	62,761	75,468	137,766
Noncash patronage dividends received	(16,644)	(10,461)	(9,697)
Gain on sale of property, plant and equipment	(6,234)	(5,564)	(5,200)
(Gain) loss on investments	(182)	5,465	(126,729)
Loss on crack spread contingent liability	23,109	22,328	
Deferred taxes	92,717	58,624	67,089
Other, net	5,714	481	868
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	123,951	(512,034)	(714,589)
Inventories	557,331	(252,842)	(796,596)
Derivative assets	610,023	(185,930)	(422,374)
Margin deposits	812,616	(51,241)	(462,857)
Other current assets and other assets	19,780	(35,375)	(137,749)
Customer margin deposits and credit balances	(509,548)	56,177	327,813
Customer advance payments	(260,449)	61,978	163,640
Accounts payable and accrued expenses	171,878	(167,025)	870,314
Derivative liabilities	(395,454)	111,481	213,225
Other liabilities	10,815	60,503	15,617
Net cash provided by operating activities	2,477,800	718,636	301,323
Cash flows from investing activities:			
Acquisition of property, plant and equipment	(659,373)	(468,611)	(310,670)
Proceeds from disposition of property, plant and equipment	7,727	27,839	9,496
Expenditures for major repairs	(73,701)	(23,443)	(92,129)
Investments in joint ventures and other	(21,364)	(94,757)	(6,090)
Investments redeemed	13,021	12,112	39,681
Proceeds from sale of investments	1,250		225,000
Changes in notes receivable	211,935	19,040	(347,509)
Business acquisitions, net of cash acquired	(12,711)	(166,033)	(67,489)
Other investing activities, net	(1,742)	(342)	(1,259)
Net cash used in investing activities	(534,958)	(694,195)	(550,969)
Cash flows from financing activities:			
Changes in notes payable	85,910	(27,561)	457,731
Long-term debt borrowings	280,000		631,882
Principal payments	(113,583)	(96,619)	(114,929)
Mandatorily redeemable noncontrolling interest payments	(65,981)		
Payments for bank fees	(9,593)	(12,390)	(5,348)

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Changes in checks and drafts outstanding	(20,392) 6,353	63,033	
Distributions to noncontrolling interests	(1,442) (78,602) (18,184)
Preferred stock dividends paid	(24,544	) (24,544	) (24,544)
Retirements of equities	(193,413	) (145,722	) (61,193)
Cash patronage dividends paid	(380,947	) (260,666	) (141,513)
Other financing activities, net	811	878	(20)
Net cash (used in) provided by financing activities	(443,174	) (638,873	) 786,915	
Effect of exchange rate changes on cash and cash equivalents	(5,165	) (9,224	) 5,753	
Net increase (decrease) in cash and cash equivalents	1,494,503	(623,656	) 543,022	
Cash and cash equivalents at beginning of period	314,029	937,685	394,663	
Cash and cash equivalents at end of period	\$1,808,532	\$314,029	\$937,685	

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

CHS Inc. and Subsidiaries

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES

Note 1 Summary of Significant Accounting Policies

Organization

CHS Inc. (CHS, we, us, our) is one of the nation's leading integrated agricultural companies. As a cooperative, CHS is owned by farmers and ranchers and their member cooperatives (members) across the United States. We also have preferred stockholders that own shares of our 8% Cumulative Redeemable Preferred Stock (8% Preferred Stock), which is listed on the NASDAQ Stock Market LLC (NASDAQ) under the symbol CHSCP. On August 31, 2013, we had 12,272,003 shares of our 8% Preferred Stock outstanding. During September 2013, we issued 11,319,175 shares of Class B Cumulative Redeemable Preferred Stock (Class B Preferred Stock), which is listed on the NASDAQ under the symbol CHSCO. We buy commodities from and provide products and services to patrons (including member and other non-member customers), both domestic and international. We provide a wide variety of products and services, from initial agricultural inputs such as fuels, farm supplies, crop nutrients and crop protection products, to agricultural outputs that include grains and oilseeds, grain and oilseed processing and food products. A portion of our operations are conducted through equity investments and joint ventures whose operating results are not fully consolidated with our results; rather, a proportionate share of the income or loss from those entities is included as a component in our net income under the equity method of accounting.

Basis of Presentation and Revisions

The consolidated financial statements include the accounts of CHS and 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 transactions have been eliminated.

We previously reported certain derivatives assets and liabilities on a net basis on our Consolidated Balance Sheets. We have determined that such derivatives should have been reported on a gross basis and have revised our fiscal 2012 Consolidated Balance Sheet, which resulted in an increase in derivative assets of \$221.9 million, an increase in derivatives liabilities of \$340.8 million and a decrease of Accounts Payable of \$118.9 million. The fiscal 2012 and 2011 Consolidated Statements of Cash Flows have also been revised for these changes with no impact to net operating, investing or financing cash flows.

We do not believe these revisions are material. The related amounts in our fiscal 2013 interim financial statements will be revised when our 2014 interim financial statements are issued.

As of September 1, 2011, we changed the expected useful lives of certain fixed assets in our Energy segment. We increased the expected useful lives of refining and asphalt assets from 16 years to 20 years, which reduced depreciation expense by approximately \$27.0 million in fiscal 2012.

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 No. 2011-05 became

effective for us during fiscal 2013. The required disclosures of this update are included in our Consolidated Statements of Comprehensive Income.

Cash Equivalents

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

Inventories

Grain, processed grain, oilseed and processed oilseed are stated at net realizable values which approximate market values. All other inventories are stated at the lower of cost or market. Costs for inventories produced or modified by us through a manufacturing process include fixed and variable production and raw material costs, and in-bound freight costs for raw

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

materials. Costs for inventories purchased for resale include the cost of products and freight incurred to place the products at our points of sale. The costs of certain energy inventories (wholesale refined products, crude oil and asphalt) are determined on the last-in, first-out (LIFO) method; all other inventories of non-grain products purchased for resale are valued on the first-in, first-out (FIFO) and average cost methods.

Derivative Financial Instruments and Hedging Activities

Our derivative instruments primarily consist of commodity and freight futures and forward contracts and, to a minor 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 accounted for as cash flow hedges. Derivative instruments are recorded on our Consolidated Balance Sheets at fair values as described in Note 12, Fair Value Measurements.

Even though we have netting arrangements for our exchange-traded futures and options contracts and certain over-the-counter (OTC) contracts, we report our derivative on a gross basis on our Consolidated Balance Sheets. Our associated margin deposits are also reported on a gross basis.

As of August 31, 2013 and 2012, we had the following outstanding purchase and sale contracts:

	2013		2012	
	Purchase Contracts	Sale Contracts	Purchase Contracts	Sale Contracts
	(Units in thousands)			
Grain and oilseed - bushels	521,979	806,295	722,895	1,074,535
Energy products - barrels	12,626	21,312	9,047	19,561
Soy products - tons	24	847	15	215
Crop nutrients - tons	968	1,050	600	725
Ocean and barge freight - metric tons	1,225	151	1,018	183
Rail freight - rail cars	220	43	184	34
Livestock - pounds		17,280	2,560	3,440

As of August 31, 2013 and 2012, with the exception of our interest rate swaps described below, our derivative assets and liabilities are not designated as hedging instruments.

The following table sets forth the pretax gains (losses) on derivatives not designated as hedging instruments that have been included in our Consolidated Statements of Operations during fiscal 2013 and 2012.

	Location of Gain (Loss)	2013	2012	2011
		(Dollars in thousands)		
Commodity and freight derivatives	Cost of goods sold	\$(482,352)	\$311,167	\$186,265
Foreign exchange derivatives	Cost of goods sold	(452)	(5,219)	3,363
Interest rate derivatives	Interest, net	300	206	522
		\$(482,504)	\$306,154	\$190,150

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

2013	2012
------	------

(Dollars in thousands)

Derivative Assets:

Interest rate swaps

\$24,135

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

During the year ended August 31, 2013, we entered into derivative contracts designated as cash flow hedging instruments which expire during fiscal 2014, with \$0.9 million expected to be included in earnings during the next 12 months. As of August 31, 2013 and 2012, the unrealized gains deferred to accumulated other comprehensive loss were as follows:

	2013	2012
	(Dollars in thousands)	
Gains included in accumulated other comprehensive loss, net of tax expense of	\$14,930	
\$9.2 million in 2013		

Commodity and Freight Contracts:

When we enter into a commodity or freight purchase or sales contract, we incur risks related to price changes and performance (including delivery, quality, quantity, and counterparty credit). We are exposed to risk of loss in the market value of positions held, consisting of inventory and purchase contracts at a fixed or partially fixed price in the event market prices decrease. We are also exposed to risk of loss on fixed or partially fixed price sales contracts in the event market prices increase.

Our commodity contracts primarily relate to grain, oilseed, energy (crude, refined products and propane) and fertilizer commodities. Our freight contracts primarily relate to rail, barge and ocean freight transactions. Our use of commodity and freight contracts reduces the effects of price volatility, thereby protecting us against adverse short-term price movements, while limiting the benefits of short-term price movements. To reduce the price change risks associated with holding fixed price commitments, we generally take opposite and offsetting positions by entering into commodity futures contracts or options in order to arrive at a net commodity position within the formal position limits we have established and deemed prudent for each commodity. These contracts are purchased and sold through regulated commodity futures exchanges for grain, and regulated mercantile exchanges for refined products and crude oil. We also use OTC instruments to hedge our exposure to price fluctuations on commodities and fixed price arrangements. The price risk we encounter for crude oil and most of the grain and oilseed volumes we handle can be hedged. Price risk associated with fertilizer and certain grains cannot be hedged with futures because there are no futures for these commodities and, as a result, risk is managed through the use of forward sales contracts and other pricing arrangements and, to some extent, cross-commodity futures hedging. Certain fertilizer and propane contracts are accounted for as normal purchase and normal sales transactions. We expect all normal purchase and normal sales transactions to result in physical settlement.

When a futures contract is entered into, an initial margin deposit must be sent to the applicable exchange or broker. The amount of the deposit is set by the exchange and varies by commodity. If the market price of a short futures contract increases, then an additional maintenance margin deposit would be required. Similarly, if the price of a long futures contract decreases, a maintenance margin deposit would be required and sent to the applicable exchange. Subsequent price changes could require additional maintenance margins or could result in the return of maintenance margins.

Our policy is to primarily maintain hedged positions in grain and oilseed. Our profitability from operations is primarily derived from margins on products sold and grain merchandised, not from hedging transactions. At any one time, inventory and purchase contracts for delivery to us may be substantial. Our risk management policies and procedures include net position limits. These limits are defined for each commodity and include both trader and management limits. The policy and procedures in our grain marketing operations require a review by operations management when any trader is outside of position limits and also a review by senior

management if operating areas are outside of position limits. A similar process is used in energy and wholesale crop nutrients operations. Position limits are reviewed, at least annually, with management and the Board of Directors. We monitor current market conditions and may expand or reduce our net position limits or procedures in response to changes in conditions. In addition, all purchase and sales contracts are subject to credit approvals and appropriate terms and conditions.

Hedging arrangements do not protect against nonperformance by counterparties to contracts. We primarily use exchange traded instruments which minimize exposure to counterparties' nonperformance. We evaluate exposure by reviewing contracts and adjusting the values to reflect potential nonperformance. Risk of nonperformance by counterparties includes the inability to perform because of the counterparty's financial condition and also the risk that the counterparty will refuse to perform on a contract during periods of price fluctuations where contract prices are significantly different than current market prices. We manage risks by entering into fixed price purchase and sales contracts with preapproved producers and by establishing appropriate limits for individual suppliers. Fixed price contracts are entered into with customers of acceptable creditworthiness, as internally evaluated. Historically, we have not experienced significant events of nonperformance on open contracts. Accordingly, we only adjust the estimated fair values of specifically identified contracts for nonperformance. Although we have established policies and procedures, we make no assurances that historical nonperformance experience will carry forward to future periods.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Interest Rate Contracts:

Short-term debt used to finance inventories and receivables is represented by notes payable with maturities of 30 days or less, so that our blended interest rate for all such notes approximates current market rates. During our year ended August 31, 2013, we entered into interest rate swaps to secure the interest rates related to our private placement debt anticipated to be issued in April 2014 with combined notional amounts of \$300.0 million. These derivative instruments are designated as cash flow hedges for accounting purposes and, accordingly, the net gain associated with these contracts of \$24.1 million as of August 31, 2013 was recorded as a component of other comprehensive loss. CHS Capital, LLC (CHS Capital), our wholly-owned finance subsidiary, has interest rate swaps that lock the interest rates of the underlying loans with a combined notional amount of \$8.6 million expiring at various times through fiscal 2018, with \$0.3 million of the notional amount expiring during fiscal 2014. None of CHS Capital's interest rate swaps qualify for hedge accounting and as a result, changes in fair value are recorded in earnings within interest, net in our Consolidated Statements of Operations. Long-term debt used to finance non-current assets carries various fixed interest rates and is payable at various dates to minimize the effects of market interest rate changes. The weighted-average interest rate on fixed rate debt outstanding on August 31, 2013 was approximately 5.0%.

Foreign Exchange Contracts:

We conduct essentially all of our business in U.S. dollars, except for grain marketing operations primarily in South America and Europe, and purchases of products from Canada. We had minimal risk regarding foreign currency fluctuations during fiscal 2013 and in prior years, as substantially all international sales were denominated in U.S. dollars. From time to time, we enter into foreign currency futures contracts to mitigate currency fluctuations. Foreign currency fluctuations do, however, impact the ability of foreign buyers to purchase U.S. agricultural products and the competitiveness of U.S. agricultural products compared to the same products offered by alternative sources of world supply. As of August 31, 2013, we had \$7.1 million included in derivative assets and \$5.9 million included in derivative liabilities associated with foreign currency contracts.

Margin Deposits

Many of our derivative contracts with futures and options brokers require us to make both initial margin deposits of cash or other assets and subsequent deposits, depending on changes in commodity prices, in order to comply with applicable regulations. Our margin deposit assets are held by external brokers in segregated accounts and will be used to settle the associated derivative contracts on their specified settlement dates.

Investments

Joint ventures and other investments, in which we have significant ownership and influence, but not control, are accounted for in our consolidated financial statements using the equity method of accounting. Investments in other cooperatives are stated at cost, plus patronage dividends received in the form of capital stock and other equities. Patronage dividends are recorded as a reduction to cost of goods sold at the time qualified written notices of allocation are received. Investments in other debt and equity securities are considered available for sale financial instruments and are stated at fair value, with unrealized amounts included as a component of accumulated other comprehensive loss. Investments in debt and equity instruments are carried at amounts that approximate fair values. Investments in joint ventures and cooperatives have no quoted market prices.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on the straight-line method by charges to operations at rates based upon the expected useful lives of individual or groups of assets (15 to 20 years for land and land improvements; 20 to 40 years for buildings; 5 to 20 years for machinery and equipment; and 3 to 10 years for office and other). The cost and related accumulated depreciation and amortization of assets sold or otherwise disposed of are removed from the related accounts and resulting gains or losses are reflected in operations. Expenditures for maintenance and minor repairs and renewals are expensed, while costs of major repairs and betterments are capitalized and amortized on a straight-line basis over the period of time estimated to lapse until the next major repair occurs.

Property, plant and equipment and other long-lived assets are reviewed in order to assess recoverability based on projected income and related cash flows on an undiscounted basis when triggering events occur. Should the sum of the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

expected future net cash flows be less than the carrying value, an impairment loss would be recognized. An impairment loss would be measured by the amount by which the carrying value of the asset exceeds the fair value of the asset.

We have asset retirement obligations with respect to certain of our refineries and related assets due to various legal obligations to clean and/or dispose of various component parts at the time they are retired. However, these assets can be used for extended and indeterminate periods of time, as long as they are properly maintained and/or upgraded. It is our practice and current intent to maintain refineries and related assets and to continue making improvements to those assets based on technological advances. As a result, we believe our refineries and related assets have indeterminate lives for purposes of estimating asset retirement obligations because dates or ranges of dates upon which we would retire a refinery and related assets cannot reasonably be estimated at this time. When a date or range of dates can reasonably be estimated for the retirement of any component part of a refinery or related asset, we will estimate the cost of performing the retirement activities and record a liability for the fair value of that cost using established present value techniques.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets are reviewed for impairment annually or more frequently if impairment conditions arise, and those that are impaired are written down to fair value. For goodwill, annual impairment testing occurs in the third quarter. Other intangible assets consist primarily of customer lists, trademarks and agreements not to compete. Intangible assets subject to amortization are expensed over their respective useful lives (ranging from 2 to 30 years). We have no material intangible assets with indefinite useful lives.

We made various acquisitions during the three years ended August 31, 2013, which were accounted for using the acquisition method of accounting. Operating results of the acquisitions were included in our consolidated financial statements since the respective acquisition dates. The respective purchase prices were allocated to the assets, liabilities and identifiable intangible assets acquired based upon the estimated fair values. The excess purchase prices over the estimated fair values of the net assets acquired have been reported as goodwill.

In our Energy segment, major maintenance activities (turnarounds) at the 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. Amortization expense related to turnaround costs is 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.

Revenue Recognition

We provide a wide variety of products and services, from production agricultural inputs such as fuels, farm supplies and crop nutrients, to agricultural outputs that include grain and oilseed, processed grains and oilseeds and food products. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collection is probable. Grain and oilseed

sales are recorded after the commodity has been delivered to its destination and final weights, grades and settlement prices have been agreed upon. All other sales are recognized upon transfer of title, which could occur either upon shipment to or receipt by the customer, depending upon the terms of the transaction. Amounts billed to a customer as part of a sales transaction related to shipping and handling are included in revenues.

Environmental Expenditures

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

Income Taxes

CHS is a nonexempt agricultural cooperative and files a consolidated federal income tax return with our 80% or more owned subsidiaries. We are subject to tax on income from nonpatronage sources, non-qualified patronage distributions and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

undistributed patronage-sourced income. Income tax expense is primarily the current tax payable for the period and the change during the period in certain deferred tax assets and liabilities. Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for federal and state income tax purposes, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Use of Estimates

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

Recent Accounting Pronouncements

In December 2011, the FASB issued Accounting Standards Update (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 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 July 2013, the FASB issued ASU No. 2013-11, "Income Taxes (Topic 740) — Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit

Carryforward Exists.” ASU No. 2013-11 provides guidance on the presentation of unrecognized tax benefits that will better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 and early adoption is permitted. This will be effective for us in fiscal 2015 and we do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

Note 2 Receivables

Receivables as of August 31, 2013 and 2012 are as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	2013	2012
	(Dollars in thousands)	
Trade accounts receivable	\$2,673,169	\$2,817,817
CHS Capital notes receivable	437,141	606,514
Other	254,590	278,196
	3,364,900	3,702,527
Less allowances and reserves	94,589	111,785
	\$3,270,311	\$3,590,742

Trade accounts receivable are initially recorded at a selling price, which approximates fair value, upon the sale of goods or services to customers. Subsequently, trade accounts receivable are carried at net realizable value, which includes an allowance for estimated uncollectible amounts. We calculate this allowance based on our history of write-offs, level of past due accounts, and our relationships with, and the economics status of, our 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 and producer borrowers. The short-term notes receivable generally have maturity terms of 12-14 months and are reported at their outstanding principle balances, as CHS Capital holds 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 balances included in the table above, CHS Capital had long-term notes receivable, with durations of not more than 10 years, totaling \$127.7 million and \$164.8 million at August 31, 2013 and 2012, respectively. The long-term notes receivable are included in other assets on our Consolidated Balance Sheets. As of August 31, 2013 and 2012, the commercial notes represented 59% and 74%, respectively, and the producer notes represented 41.0% and 26.0%, respectively, of the total CHS Capital notes receivable.

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, the specific and general loan loss reserves related to CHS Capital are not material to our consolidated financial statements, nor are the associated 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 August 31, 2013, CHS Capital's customers have additional available credit of \$1.0 billion.

Note 3 Inventories

Inventories as of August 31, 2013 and 2012 are as follows:

2013	2012
(Dollars in thousands)	

Grain and oilseed	\$1,133,555	\$1,625,865
Energy	742,194	701,348
Crop nutrients	293,370	401,655
Feed and farm supplies	407,023	384,178
Processed grain and oilseed	79,706	76,892
Other	8,887	14,034
	\$2,664,735	\$3,203,972

As of August 31, 2013, we valued approximately 16% of inventories, primarily crude oil and refined fuels within our Energy segment, using the lower of cost, determined on the LIFO method, or market (11% as of August 31, 2012). If the FIFO

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

method of accounting had been used, inventories would have been higher than the reported amount by \$652.6 million and \$566.6 million at August 31, 2013 and 2012, respectively.

Note 4 Investments

Investments as of August 31, 2013 and 2012 are as follows:

	2013	2012
	(Dollars in thousands)	
Joint ventures:		
Ventura Foods, LLC	\$309,480	\$292,393
Horizon Milling, LLC	92,635	78,372
TEMCO, LLC	63,547	60,734
Horizon Milling, ULC	19,314	16,727
Cooperatives:		
Land O'Lakes, Inc.	66,255	58,382
Ag Processing Inc.	19,970	19,577
Other	194,745	147,203
	\$765,946	\$673,388

CHS has a 24% interest in Horizon Milling, LLC and Horizon Milling, ULC, flour milling joint ventures with Cargill, Incorporated (Cargill), which are accounted for as equity method investments and are included in Corporate and Other. On March 4, 2013, CHS 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, including the Horizon Milling, LLC and Horizon Milling, ULC assets and the assets leased by CHS to Horizon Milling, with CHS holding a 12% interest. Upon closing, Ardent Mills is expected to be financed with funds from third-party borrowings, which would not require credit support from the owners. The borrowings are anticipated to be no less than \$600 million with proceeds distributed to each owner in proportion to the ownership interests, adjusted for any deviations in specified working capital target amounts. The transaction is expected to close during fiscal 2014, subject to financing and certain other customary closing conditions. In connection with the closing, the parties will also enter into various ancillary and non-compete agreements, including, among other things, an agreement for CHS to supply Ardent Mills with certain wheat and durum products.

CHS has a 50% interest in Ventura Foods, LLC (Ventura Foods), a joint venture which produces and distributes primarily vegetable oil-based products, and is included in Corporate and Other. We account for Ventura Foods as an equity method investment, and as of August 31, 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 August 31, 2013 and 2012, and statements of operations for the twelve months ended August 31, 2013, 2012 and 2011:

	2013	2012
	(Dollars in thousands)	
Current assets	\$532,995	\$574,925
Non-current assets	503,369	459,070
Current liabilities	216,704	197,251
Non-current liabilities	226,515	277,760

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	2013	2012	2011
	(Dollars in thousands)		
Net sales	\$2,541,483	\$2,550,018	\$2,350,895
Gross profit	267,602	244,969	255,748
Net earnings	106,405	94,586	105,754
Earnings attributable to CHS Inc.	53,203	47,293	52,877

During the year ended August 31, 2011, we sold all of our 45% ownership interest in Multigrain, AG to one of our joint venture partners, Mitsui & Co., Ltd., for \$225.0 million and recognized a pre-tax gain of \$119.7 million.

Agrilience LLC (Agrilience) is owned and governed by CHS (50%) and Land O'Lakes, Inc. (50%). We account for our Agrilience investment using the equity method of accounting within Corporate and Other. Agrilience has essentially ceased its business activities and primarily holds long-term liabilities. During the year ended August 31, 2011, we received \$28.0 million of cash distributions from Agrilience as returns of capital for proceeds from the sale of many of the Agrilience retail facilities, and the collection of receivables. We recorded a pre-tax gain of \$9.0 million during fiscal 2011 related to these cash distributions. During the year ended August 31, 2012, we made cash contributions of \$45.4 million to Agrilience, which were primarily used to fully fund the Agrilience Employee Retirement Plan (Agrilience Plan). The Agrilience Plan assets and liabilities were transferred to CHS and Land O' Lakes, Inc. during fiscal 2012. CHS received pension plan assets and liabilities of \$97.2 million and \$84.5 million, respectively. We recorded the net \$12.7 million pension plan asset as a non-cash dividend and recorded a \$0.8 million pre-tax loss related to the distribution.

TEMCO is owned and governed by Cargill (50%) and CHS (50%). During the year ended August 31, 2012, we entered into an amended and restated agreement to expand the scope of the original agreement with Cargill. Pursuant to the terms of the agreement, CHS and Cargill each agreed to commit to sell all of their feedgrains, wheat, oilseeds and by-product origination that are tributary to the Pacific Northwest, United States (Pacific Northwest) to TEMCO and to use TEMCO as their exclusive export-marketing vehicle for such grains exported through the Pacific Northwest for a term of 25 years. Cargill's Tacoma, Washington facility will continue to be subleased to TEMCO. We agreed to sublease our Kalama, Washington facility to TEMCO, and Cargill agreed to lease their Irving facility in Portland, Oregon to TEMCO to provide TEMCO with more capacity to conduct this business.

The following provides combined financial information for our major equity investments, excluding Ventura Foods, for balance sheets as of August 31, 2013 and 2012, and statements of operations for the twelve months ended August 31, 2013, 2012 and 2011:

	2013	2012
	(Dollars in thousands)	
Current assets	\$513,327	\$631,335
Non-current assets	248,809	158,675
Current liabilities	256,681	352,016
Non-current liabilities	5,387	5,642

	2013	2012	2011
	(Dollars in thousands)		
Net sales	\$5,388,248	\$5,402,241	\$8,399,779
Gross profit	200,353	225,680	406,338
Net earnings	43,168	121,107	232,473

Earnings attributable to CHS Inc.	27,702	36,032	89,575
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Note 5 Property, Plant and Equipment

A summary of property, plant and equipment as of August 31, 2013 and 2012 is as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	2013	2012
	(Dollars in thousands)	
Land and land improvements	\$169,022	\$145,831
Buildings	574,834	598,269
Machinery and equipment	4,195,523	3,786,488
Office and other	118,442	109,136
Construction in progress	480,703	405,755
	5,538,524	5,045,479
Less accumulated depreciation and amortization	2,367,120	2,259,155
	\$3,171,404	\$2,786,324

Depreciation expense for the years ended August 31, 2013, 2012 and 2011, was \$224.5 million, \$199.8 million and \$205.2 million, respectively.

We are leasing certain of our wheat milling facilities and related equipment to Horizon Milling under an operating lease agreement. The net book value of the leased milling assets at August 31, 2013 was \$46.9 million. As a result of the pending Ardent Mills transaction described in Note 4, Investments, these assets are classified as held for sale in other current assets on our Consolidated Balance Sheet as of August 31, 2013.

Note 6 Other Assets

Other assets as of August 31, 2013 and 2012 are as follows:

	2013	2012
	(Dollars in thousands)	
Goodwill	\$85,063	\$81,693
Customer lists, less accumulated amortization of \$20,063 and \$32,883, respectively	16,352	20,694
Non-compete covenants, less accumulated amortization of \$6,129 and \$6,896, respectively	812	1,987
Trademarks and other intangible assets, less accumulated amortization of \$19,853 and \$15,949, respectively	18,312	22,185
Notes receivable	143,343	173,054
Long-term receivable	38,704	37,589
Prepaid pension and other benefits	187,270	86,477
Capitalized major maintenance	109,408	70,554
Other	56,896	24,053
	\$656,160	\$518,286

During the years ended August 31, 2013 and 2012, we had acquisitions which resulted in \$8.3 million and \$55.5 million of goodwill, respectively. There were no dispositions resulting in a decrease to goodwill during fiscal 2013 and 2012.

During the years ended August 31, 2013 and 2012, intangible assets acquired totaled \$1.5 million and \$23.4 million, respectively.

Intangible assets amortization expense for the years ended August 31, 2013, 2012 and 2011, was \$10.0 million, \$12.7 million and \$11.0 million, respectively. The estimated annual amortization expense related to intangible assets subject to amortization for the next five years is as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	(Dollars in thousands)
Year 1	\$7,997
Year 2	6,479
Year 3	5,927
Year 4	4,545
Year 5	2,507
Thereafter	8,021
	\$35,476

The capitalized major maintenance activity is as follows:

	Balance at Beginning of Year (Dollars in thousands)	Cost Deferred	Amortization	Write-Offs	Balance at End of Year
2013	\$70,554	\$73,701	\$(34,847)		\$109,408
2012	80,752	23,443	(33,641)		70,554
2011	19,097	92,129	(30,474)		80,752

Note 7 Notes Payable and Long-Term Debt

Our notes payable and long-term debt are subject to various restrictive requirements for maintenance of minimum consolidated net worth and other financial ratios. We were in compliance with our debt covenants as of August 31, 2013.

Notes Payable

Notes payable as of August 31, 2013 and 2012, consisted of the following:

	Weighted-average Interest Rate			
	2013	2012	2013	2012
	(Dollars in thousands)			
Notes payable (a)	2.00%	2.58%	\$521,864	\$269,783
CHS Capital notes payable (b)	1.23%	1.68%	367,448	533,839
Total notes payable			\$889,312	\$803,622

Our primary committed line of credit is a \$2.5 billion five-year revolving credit facility expiring in June 2018, with a syndication of domestic and international banks, with no amounts outstanding as of August 31, 2013. We have a committed revolving credit facility dedicated to NCRA in the amount of (a) \$15.0 million that expires in December 2014, with no amounts outstanding as of August 31, 2013. We also have a committed revolving credit facility dedicated to CHS Europe S.A. in the amount of \$80.0 million that expires in September 2018, with no amounts outstanding as of August 31, 2013. Our wholly-owned subsidiaries, CHS Europe S.A. and CHS Agronegocio Industria e Comercio Ltda (CHS Agronegocio), have uncommitted lines of credit to finance their normal trading activities with \$420.1 million outstanding as of August 31, 2013. These lines are collateralized by certain inventories and receivables. In addition, other international subsidiaries had lines of credit totaling \$99.3 million outstanding as of August 31, 2013, of which \$60.8 million was collateralized.

We have two commercial paper programs totaling up to \$125.0 million with two banks participating in the revolving credit facilities. Terms of our credit facilities allow a maximum usage of \$200.0 million to pay principal under any commercial paper facility. On August 31, 2013 we had no commercial paper outstanding. Miscellaneous short-term notes payable totaled \$2.5 million as of August 31, 2013.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Cofina Funding, LLC (Cofina Funding), a wholly-owned subsidiary of CHS Capital, has available credit totaling \$300.0 million as of August 31, 2013, under note purchase agreements with various purchasers, through the issuance of short-term notes payable. CHS Capital sells eligible commercial loans receivable it (b)has originated to Cofina Funding, which are then pledged as collateral under the note purchase agreements.

The notes payable issued by Cofina Funding bear interest at variable rates based on commercial paper.

There were no borrowings by Cofina Funding utilizing the issuance of commercial paper under the note purchase agreements as of August 31, 2013.

CHS Capital has available credit under master participation agreements with numerous counterparties.

Borrowings under these agreements are accounted for as secured borrowings and bear interest at variable rates ranging from 1.96% to 2.69% as of August 31, 2013. As of August 31, 2013, the total funding commitment under these agreements was \$223.8 million, of which \$30.8 million was borrowed.

CHS Capital sells loan commitments it has originated to ProPartners Financial (ProPartners) on a recourse basis. The total capacity for commitments under the ProPartners program is \$300.0 million. The total outstanding commitments under the program totaled \$68.1 million as of August 31, 2013, of which \$45.7 million was borrowed under these commitments with an interest rate of 1.60%.

CHS Capital borrows funds under short-term notes issued as part of a surplus funds program. Borrowings under this program are unsecured and bear interest at variable rates ranging from 0.80% to 1.10% as of August 31, 2013, and are due upon demand. Borrowings under these notes totaled \$290.9 million as of August 31, 2013.

In October 2013, we entered into a three-year \$250.0 million committed revolving credit facility for CHS Agronegocio to provide financing for its working capital needs arising from its purchases and sales of grains, fertilizers and other agricultural products.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Long-Term Debt

Long-term debt as of August 31, 2013 and 2012 consisted of the following:

	2013	2012
	(Dollars in thousands)	
5.59% unsecured revolving term loans from cooperative and other banks, due in equal installments beginning in 2013 through 2018	\$135,000	\$150,000
6.18% unsecured notes \$400 million face amount, due in equal installments beginning in 2014 through 2018	400,000	400,000
6.81% unsecured notes \$225 million face amount, due in equal installments beginning in 1998 through 2013		37,500
5.60% unsecured notes \$60 million face amount, due in equal installments beginning in 2012 through 2018	41,539	59,615
5.25% unsecured notes \$125 million face amount, due in equal installments beginning in 2011 through 2015	50,000	75,000
5.78% unsecured notes \$50 million face amount, due in equal installments beginning in 2014 through 2018	50,000	50,000
4.00% unsecured notes \$100 million face amount, due in equal installments beginning in 2017 through 2021	100,000	100,000
4.08% unsecured notes \$130 million face amount, due in 2019	130,000	130,000
4.52% unsecured notes \$160 million face amount, due in 2021	160,000	160,000
4.67% unsecured notes \$130 million face amount, due in 2023	130,000	130,000
3.85% unsecured notes \$80 million face amount, due in 2025	80,000	
3.80% unsecured notes \$100 million face amount, due in 2025	100,000	
4.82% unsecured notes \$80 million face amount, due in 2026	80,000	80,000
4.71% unsecured notes \$100 million face amount, due in 2033	100,000	
Other notes and contracts with interest rates from 2.25% to 15.75% (a)	50,493	68,238
Total long-term debt	1,607,032	1,440,353
Less current portion	156,612	108,211
Long-term portion	\$1,450,420	\$1,332,142

(a) Other notes and contracts payable of \$16.5 million were collateralized on August 31, 2013.

As of August 31, 2013, 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).

Long-term debt outstanding as of August 31, 2013 has aggregate maturities as follows:

	(Dollars in thousands)
2014	\$156,612
2015	164,022
2016	130,219
2017	149,832
2018	162,103
Thereafter	844,244
	\$1,607,032

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Interest, net for the years ended August 31, 2013, 2012 and 2011 was as follows:

	2013	2012	2011
	(Dollars in thousands)		
Interest expense	\$99,271	\$94,090	\$83,044
Interest - purchase of NCRA noncontrolling interests	149,087	113,184	
Capitalized interest	(10,579)	(8,882)	(5,487)
Interest income	(6,212)	(5,129)	(2,722)
Interest, net	\$231,567	\$193,263	\$74,835

Note 8 Income Taxes

The provision for income taxes for the years ended August 31, 2013, 2012 and 2011 is as follows:

	2013	2012	2011
	(Dollars in thousands)		
Current			
Federal	\$(18,018)	\$9,565	\$10,564
State	11,805	7,851	8,922
Foreign	3,162	4,812	53
	(3,051)	22,228	19,539
Deferred			
Federal	92,102	66,707	54,435
State	1,685	1,617	9,454
Foreign	(1,070)	(9,700)	3,200
	92,717	58,624	67,089
Total	\$89,666	\$80,852	\$86,628

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

Deferred tax assets and liabilities as of August 31, 2013 and 2012 were as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	2013	2012
	(Dollars in thousands)	
Deferred tax assets:		
Accrued expenses	\$66,973	\$89,844
Postretirement health care and deferred compensation	57,130	107,817
Tax credit carryforwards	97,242	118,752
Loss carryforwards	57,174	30,272
Other	40,868	57,429
Deferred tax assets valuation	(79,623)	(56,659)
Total deferred tax assets	239,764	347,455
Deferred tax liabilities:		
Pension	6,752	35,516
Investments	91,453	120,879
Major maintenance	31,960	9,141
Property, plant and equipment	529,101	453,863
Other	—	175
Total deferred tax liabilities	659,266	619,574
Net deferred tax liabilities	\$419,502	\$272,119

We have total loss carry forwards of \$146.8 million, of which \$81.4 million will expire over periods ranging from fiscal 2014 to fiscal 2024. NCRA's gross state tax credit carry forwards for income tax are approximately \$88.1 million and \$99.5 million as of August 31, 2013, and 2012, respectively. During the year ended August 31, 2013, the valuation allowance for NCRA decreased by \$4.0 million due to a change in the amount of state tax credits that are estimated to be utilized. NCRA's valuation allowance is necessary due to the limited amount of taxable income it generates on an annual basis. Based on estimates of future taxable profits and losses in certain foreign tax jurisdictions, we determined that a valuation allowance was required for specific foreign loss carry forwards as of August 31, 2013. If these estimates prove inaccurate, a change in the valuation allowance, up or down, could be required in the future. During 2013, foreign loss tax valuation allowances increased by \$26.1 million.

Our foreign tax credit of \$7.0 million will expire on August 31, 2019. Our general business credits of \$39.0 million, comprised primarily of low sulfur diesel credits, will begin to expire on August 31, 2027.

As of August 31, 2013, net deferred taxes of \$39.3 million and \$458.8 million were included in other current assets and other liabilities, respectively. As of August 31, 2012, net deferred taxes of \$37.6 million and \$309.7 million were included in other current assets and other liabilities, respectively.

The reconciliation of the statutory federal income tax rates to the effective tax rates for the years ended August 31, 2013, 2012 and 2011 is as follows:

	2013		2012		2011	
Statutory federal income tax rate	35.0	%	35.0	%	35.0	%
State and local income taxes, net of federal income tax benefit	0.9		0.5		1.3	
Patronage earnings	(22.9)	)	(24.2)	)	(20.5))
Domestic production activities deduction	(8.5)	)	(3.5)	)	(3.2))
Export activities at rates other than the U.S. statutory rate	0.6		0.4		0.5	
Valuation allowance	2.3		0.6		0.9	

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Tax credits	(0.5)	(1.3)	(3.1)
Non-controlling interests	(0.1)	(1.9)	(3.0)
Other	1.5		0.1		(0.4)
Effective tax rate	8.3	%	5.7	%	7.5	%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

We file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. Our uncertain tax positions are affected by the tax years that are under audit or remain subject to examination by the relevant taxing authorities. In addition to the current year, fiscal 2006 through 2012 remain subject to examination, at least for certain issues.

We account for our income tax provisions in accordance with ASC 740, Income Taxes, which prescribes a minimum threshold that a tax provision is required to meet before being recognized in our consolidated financial statements. This interpretation requires us to recognize in our consolidated financial statements tax positions determined more likely than not to be sustained upon examination, based on the technical merits of the position. Reconciliation of the gross beginning and ending amounts of unrecognized tax benefits for the periods presented follows:

	2013	2012	2011
	(Dollars in thousands)		
Balance at beginning of period	\$67,271	\$67,271	\$69,357
Reductions attributable to statute expiration			(2,086)
Balance at end of period	\$67,271	\$67,271	\$67,271

If we were to prevail on all tax positions taken relating to uncertain tax positions, substantially all of the unrecognized tax benefits would benefit the effective tax rate. We do not believe it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease during the next 12 months.

We recognize interest and penalties related to unrecognized tax benefits in our provision for income taxes. For the years ended August 31, 2013, 2012 and 2011, we recognized in our Consolidated Statements of Operations \$0.2 million, \$0.2 million and \$0.1 million, respectively, for interest related to unrecognized tax benefits. We recorded interest payable related to unrecognized tax benefits on our Consolidated Balance Sheets of \$0.6 million and \$0.4 million, as of August 31, 2013 and 2012, respectively.

Note 9 Equities

In accordance with the bylaws and by action of the Board of Directors, annual net earnings from patronage sources are distributed to consenting patrons following the close of each fiscal year, and are based on amounts using financial statement earnings. The cash portion of the qualified patronage distribution is determined annually by the Board of Directors, with the balance issued in the form of capital equity certificates. Total qualified patronage refunds for fiscal 2013 are estimated to be \$711.9 million, with the cash portion estimated to be \$284.8 million. Beginning in fiscal 2014, a portion of patronage refunds will be in the form of non-qualified capital equity certificates and is estimated to be \$129.5 million. The actual qualified patronage refunds and cash portion for fiscal years 2012, 2011, and 2010 were \$976.0 million (\$380.9 million in cash), \$676.3 million (\$260.7 million in cash), and \$402.4 million (\$141.5 million in cash), respectively.

Annual net savings from patronage or other sources may be added to the unallocated capital reserve or, upon action by the Board of Directors, may be allocated to members in the form of nonpatronage equity certificates. The Board of Directors authorized, in accordance with our bylaws, that 10% of the earnings from patronage business for fiscal years 2013, 2012, and 2011 be added to our capital reserves.

Redemptions are at the discretion of the Board of Directors. Redemptions of capital equity certificates approved by the Board of Directors are divided into two pools, one for non-individuals (primarily member cooperatives) who may participate in an annual program for equities held by them and another for individual

members who are eligible for equity redemptions at age 70 or upon death. In accordance with authorization from the Board of Directors, we expect total redemptions related to the year ended August 31, 2013 that will be distributed in fiscal 2014, to be approximately \$101.3 million. These expected distributions are classified as a current liability on the August 31, 2013 Consolidated Balance Sheet. For the years ended August 31, 2013, 2012 and 2011, we redeemed in cash, equities in accordance with authorization from the Board of Directors, in the amounts of \$193.4 million, \$145.7 million and \$61.2 million, respectively.

Our 8% Preferred Stock is listed on the NASDAQ under the symbol CHSCP. On August 31, 2013, we had 12,272,003 shares of our 8% Preferred Stock outstanding with a total redemption value of \$306.8 million, excluding accumulated dividends. Our 8% Preferred Stock accumulates dividends at a rate of 8% per year, which are payable quarterly. Dividends paid on our 8% Preferred Stock during the years ended August 31, 2013, 2012 and 2011, were \$24.5 million, \$24.5 million, and \$24.5 million, respectively. During the year ended August 31, 2013, we amended the terms of our 8% Preferred Stock to provide that it may not be redeemed at our option until July 18, 2023.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

During September 2013, we issued 11,319,175 shares of Class B Preferred Stock, with a total redemption value of \$283.0 million, excluding accumulated dividends. The Class B Preferred Stock is listed on the NASDAQ under the symbol CHSCO and accumulates dividends at a rate of 7.875% per year, which are payable quarterly. Our Class B Preferred Stock may not be redeemed at our option until September 26, 2023.

As described in Note 17, Acquisitions, we have a firm commitment to purchase the remaining NCRA noncontrolling interests. The following table presents the effects of changes in our NCRA ownership interest on CHS equities for the years ended August 31, 2013, 2012, and 2011.

	2013	2012	2011
	(Dollars in thousands)		
Net income attributable to CHS Inc.	\$ 992,386	\$ 1,260,628	\$ 961,355
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	\$ 992,386	\$ 1,178,490	\$ 961,355
Note 10 Benefit Plans			

We have various pension and other defined benefit and defined contribution plans, in which substantially all employees may participate. We also have non-qualified supplemental executive and Board retirement plans.

Financial information on changes in benefit obligation and plan assets funded and balance sheets status as of August 31, 2013 and 2012 is as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Qualified Pension Benefits		Non-Qualified Pension Benefits		Other Benefits	
	2013	2012	2013	2012	2013	2012
	(Dollars in thousands)					
Change in benefit obligation:						
Benefit obligation at beginning of period	\$671,066	\$501,053	\$34,470	\$29,728	\$64,189	\$56,864
Service cost	31,387	26,010	721	279	2,936	2,556
Interest cost	25,445	24,119	1,316	1,343	2,275	2,638
Transfers in from Agrilience Employee Retirement Plan		84,498				
Actuarial loss (gain)	12,819	982	3,455	2,498	(5,243)	(1,997)
Assumption change	(64,483)	62,755	(1,952)	1,956	(16,693)	6,437
Plan amendments						(899)
Medicare D					92	625
Benefits paid	(34,950)	(28,351)	(1,785)	(1,334)	(2,014)	(2,035)
Benefit obligation at end of period	\$641,284	\$671,066	\$36,225	\$34,470	\$45,542	\$64,189
Change in plan assets:						
Fair value of plan assets at beginning of period	\$688,196	\$540,822	\$—	\$—	\$—	\$—
Actual gain on plan assets	53,582	50,515				
Company contributions	23,800	28,000	1,785	1,334	2,014	2,035
Transfers in from Agrilience Employee Retirement Plan		97,210				
Benefits paid	(34,950)	(28,351)	(1,785)	(1,334)	(2,014)	(2,035)
Fair value of plan assets at end of period	\$730,628	\$688,196	\$—	\$—	\$—	\$—
Funded status at end of period	\$89,344	\$17,130	\$(36,225)	\$(34,470)	\$(45,542)	\$(64,189)
Amounts recognized on balance sheet:						
Non-current assets	\$89,930	\$17,695				
Accrued benefit cost:						
Current liabilities			\$(3,051)	\$(3,325)	\$(2,919)	\$(3,297)
Non-current liabilities	(586)	(565)	(33,174)	(31,145)	(42,623)	(60,892)
Ending balance	\$89,344	\$17,130	\$(36,225)	\$(34,470)	\$(45,542)	\$(64,189)
Amounts recognized in accumulated other comprehensive loss (pretax):						
Net transition obligation						\$563
Prior service cost (credit)	\$7,794	\$9,392	\$1,088	\$1,316	\$(712)	(17)
Net loss (gain)	253,288	331,420	10,685	10,104	(5,415)	683
Ending balance	\$261,082	\$340,812	\$11,773	\$11,420	\$(6,127)	\$1,229

The accumulated benefit obligation of the qualified pension plans was \$605.6 million and \$628.5 million at August 31, 2013 and 2012, respectively. The accumulated benefit obligation of the non-qualified pension plans was \$20.1 million and \$19.7 million at August 31, 2013 and 2012, respectively.

As described in Note 4, Investments, during the year ended August 31, 2012, the Agrilience Plan assets and liabilities were proportionally transferred to CHS and Land O'Lakes. CHS received pension plan assets and liabilities of \$97.2 million and \$84.5 million, respectively, and recorded the net \$12.7 million pension plan asset as a non-cash dividend. Our share of the Agrilience Plan's accumulated other comprehensive loss, or \$44.8 million, was reflected in our pre-tax balance for accumulated other comprehensive loss as of August 31, 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The assumption changes for the fiscal years ended August 31, 2013 and 2012 were related to increases in and reductions to the discount rates for both CHS and NCRA qualified pension plans, respectively. The changes in the discount rates were due to changes in the yield curves for investment grade corporate bonds that CHS and NCRA have historically used.

Components of net periodic benefit costs for the years ended August 31, 2013, 2012 and 2011 are as follows:

	Qualified Pension Benefits			Non-Qualified Pension Benefits			Other Benefits			
	2013	2012	2011	2013	2012	2011	2013	2012	2011	
	(Dollars in thousands)									
Components of net periodic benefit costs:										
Service cost	\$31,387	\$26,010	\$25,232	\$721	\$279	\$1,246	\$2,936	\$2,556	\$1,771	
Interest cost	25,445	24,119	22,257	1,316	1,343	1,933	2,275	2,638	2,194	
Expected return on assets	(49,728)	(40,904)	(41,770)							
Settlement of retiree obligations						4,735				
Prior service cost (credit) amortization	1,597	1,831	2,327	228	228	141	(120)	(104)	(122)	
Actuarial loss amortization	22,615	15,131	16,090	921	428	967	1,104	891	513	
Transition amount amortization							562	936	935	
Net periodic benefit cost	\$31,316	\$26,187	\$24,136	\$3,186	\$2,278	\$9,022	\$6,757	\$6,917	\$5,291	
Weighted-average assumptions to determine the net periodic benefit cost:										
Discount rate	3.80	% 5.00	% 4.75	% 4.25	% 5.00	% 4.75	% 3.75	% 4.75	% 4.75	%
Expected return on plan assets	7.25	% 7.25	% 7.75	% N/A	N/A	N/A	N/A	N/A	N/A	
Rate of compensation increase	4.50	% 4.50	% 4.50	% 4.75	% 4.75	% 4.75	% 4.50	% 4.50	% 4.50	%
Weighted-average assumptions to determine the benefit obligations:										
Discount rate	4.80	% 3.80	% 5.00	% 4.50	% 4.00	% 5.00	% 3.75	% 3.75	% 4.75	%
Rate of compensation	4.85	% 4.50	% 4.50	% 4.75	% 4.75	% 4.50	% 4.50	% 4.50	% 4.50	%

increase

The estimated amortization in fiscal 2014 from accumulated other comprehensive loss into net periodic benefit cost is as follows:

	Qualified Pension Benefits (Dollars in thousands)	Non-Qualified Pension Benefits	Other Benefits	
Amortization of prior service cost (benefit)	\$1,597	\$229	\$(120)
Amortization of net actuarial loss (gain)	18,576	951	(374)

For measurement purposes, a 7.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended August 31, 2013. The rate was assumed to decrease gradually to 5.0% by 2022 and remain at that level thereafter.

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

	1% Increase (Dollars in thousands)	1% Decrease	
Effect on total of service and interest cost components	\$700	\$(580)
Effect on postretirement benefit obligation	5,300	(4,700)

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

We have other contributory defined contribution plans covering substantially all employees. Total contributions by us to these plans were \$22.9 million, \$20.6 million and \$18.6 million, for the years ended August 31, 2013, 2012 and 2011, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

We voluntarily contributed \$23.8 million to qualified pension plans in fiscal 2013. Based on the funded status of the qualified pension plans as of August 31, 2013, we do not anticipate having to contribute to these plans in fiscal 2014, although we may voluntarily elect to do so. We expect to pay \$6.0 million to participants of the non-qualified pension and postretirement benefit plans during fiscal 2014.

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

	Qualified Pension Benefits (Dollars in thousands)	Non-Qualified Pension Benefits	Other Benefits Gross	Medicare D
2014	\$33,704	\$3,051	\$2,919	\$200
2015	42,350	896	3,107	200
2016	45,894	799	3,382	200
2017	47,406	4,609	3,405	200
2018	49,812	2,628	3,555	200
2019-2023	282,842	18,637	19,329	800

We have trusts that hold the assets for the defined benefit plans. CHS and NCRA have qualified plan committees that set investment guidelines with the assistance of external consultants. Investment objectives for the plans' assets are as follows:

- optimization of the long-term returns on plan assets at an acceptable level of risk
- maintenance of a broad diversification across asset classes and among investment managers
- focus on long-term return objectives

Asset allocation targets promote optimal expected return and volatility characteristics given the long-term time horizon for fulfilling the obligations of the pension plans. During fiscal year 2013, the CHS pension plans' investment policy strategy was adjusted so that liabilities match assets, which was accomplished through changes to the asset portfolio mix to reduce volatility and de-risk the plan. Thus, the plans' target allocation percentages were changed from 65% in fiscal 2012 to 50% in fiscal 2013 for fixed income securities, and from 35% in fiscal 2012 to 50% in fiscal 2013 for equity securities. An annual analysis of the risk versus the return of the investment portfolio is conducted to justify the expected long-term rate of return assumption. We generally use long-term historical return information for the targeted asset mix identified in asset and liability studies. Adjustments are made to the expected long-term rate of return assumption, when deemed necessary, based upon revised expectations of future investment performance of the overall investment markets.

The discount rate reflects the rate at which the associated benefits could be effectively settled as of the measurement date. In estimating this rate, we look at rates of return on fixed-income investments of similar duration to the liabilities in the plans that receive high, investment-grade ratings by recognized ratings agencies.

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

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

Our pension plans' fair value measurements at August 31, 2013 and 2012 are as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	2013			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Cash and cash equivalents	\$667			\$667
Equities:				
Mutual funds	113,982	80,619		194,601
Fixed income securities:				
Mutual funds	75,729	409,996	\$1,940	487,665
Partnership and joint venture interests		26,014	3,403	29,417
Real estate funds			18,156	18,156
Hedge funds			122	122
Total	\$190,378	\$516,629	\$23,621	\$730,628

	2012			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Cash and cash equivalents	\$2,588	\$21,380		\$23,968
Equities:				
Mutual funds	115,515	289,286		404,801
Fixed income securities:				
Mutual funds	76,795	164,380	\$1,868	243,043
Real estate funds			16,257	16,257
Hedge funds			127	127
Total	\$194,898	\$475,046	\$18,252	\$688,196

Definitions for valuation levels are found in Note 12, Fair Value Measurements. We use the following valuation methodologies for assets measured at fair value.

Mutual funds: Valued at quoted market prices, which are based on the net asset value of shares held by the plan at year end. Mutual funds traded in active markets are classified within Level 1 of the fair value hierarchy. Certain of the mutual fund investments held by the plan have observable inputs other than Level 1 and are classified within Level 2 of the fair value hierarchy.

Partnership and joint venture interests: Valued at the net asset value of shares held by the plan at year end as a practical expedient for fair value. The net asset value is based on the fair value of the underlying assets owned by the trust, minus its liabilities then divided by the number of units outstanding. Certain of these investments have observable inputs other than Level 1 and are classified accordingly within Level 2 of the fair value hierarchy. Other investments in this category are valued using significant unobservable inputs and are classified within Level 3 of the fair value hierarchy.

Real Estate funds: Valued quarterly at estimated fair value based on the underlying investee funds in which the real estate fund invests. This information is compiled, in addition to any other assets and liabilities (accrued expenses and unit-holder transactions), to determine the fund's unit value. The real estate fund is not traded on an active market and is classified within Level 3 of the fair value hierarchy.

Hedge funds: Valued at estimated fair value based on prices quoted by various national markets and publications and/or independent financial analysts. These investments are classified within Level 3 of the fair value hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although we believe our valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The following tables set forth a summary of changes in the fair value of the plan's Level 3 assets for the years ended August 31, 2013 and 2012:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	2013				
	Mutual Funds	Partnership and Joint Venture Interests	Real Estate Funds	Hedge Funds	Total
	(Dollars in thousands)				
Balances at beginning of period	\$1,868		\$16,257	\$127	\$18,252
Unrealized gains (losses)	(4)		1,894	7	1,897
Realized gains (losses)	82		(10)		72
Sales	(12)			(12)	(24)
Purchases		\$3,403	15		3,418
Transfers into level 3	6				6
Total	\$1,940	\$3,403	\$18,156	\$122	\$23,621

	2012				
	Mutual Funds		Real Estate Funds	Hedge Funds	Total
	(Dollars in thousands)				
Balances at beginning of period			\$14,522	\$191	\$14,713
Unrealized gains (losses)	\$48		1,763	(68)	1,743
Realized gains (losses)	90		(48)		42
Sales	(8)		(2)		(10)
Purchases			22	4	26
Transfers into level 3	1,738				1,738
Total	\$1,868		\$16,257	\$127	\$18,252

We are one of approximately 400 employers that contribute to the Co-op Retirement Plan (Co-op Plan), which is a defined benefit plan constituting a “multiple employer plan” under the Internal Revenue Code of 1986, as amended, and a “multiemployer plan” under the accounting standards. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

• Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers;

• If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and

• If we choose to stop participating in the multiemployer plan, we may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Our participation in the Co-op Plan for the years ended August 31, 2013, 2012, and 2011 is outlined in the table below:

		Contributions of CHS (Dollars in thousands)				Expiration Date of Collective Bargaining Agreement
Plan Name	EIN/Plan Number	2013	2012	2011	Surcharge Imposed	
	01-0689331 / 001	\$2,095	\$1,885	\$1,279	N/A	N/A

Co-op Retirement
Plan

Our contributions for the years stated above did not represent more than 5% of total contributions to the Co-op Plan as indicated in the Co-op Plan's most recently available annual report (Form 5500). Acquisitions during the years ended August 31, 2012 and 2011 increased the number of CHS covered participants in the Co-op Plan by approximately 70%, affecting the period-to-period comparability of the contributions for the years ending August 31, 2012 and 2011.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The Pension Protection Act (PPA) of 2006 does not apply to the Co-op Plan because it is covered and defined as a single-employer plan. There is a special exemption for cooperative plans defining them under the single-employer plan as long as the plan is maintained by more than one employer and at least 85% of the employers are rural cooperatives or cooperative organizations owned by agricultural producers. In the Co-op Plan, a “zone status” determination is not required, and therefore not determined. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. The most recent financial statements available in 2013 and 2012 are for the Co-op Plan's year-end at March 31, 2012 and 2011, respectively. In total, the Co-op Plan was at least 80% funded on those dates based on the total plan assets and accumulated benefit obligations.

Because the provisions of the PPA do not apply to the Co-op Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

In addition to the contributions to the Co-op Plan listed above, total contributions to individually insignificant multi-employer pension plans were immaterial in fiscal years 2013, 2012 and 2011.

Note 11 Segment Reporting

We have aligned our 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 our non-consolidated wheat milling and packaged food joint ventures, as well as our business solutions operations, which consists 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, our 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 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. In Corporate and Other, these investments principally include our 50% ownership in Ventura Foods and our 24% ownership in Horizon Milling and Horizon Milling, ULC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 years ended August 31, 2013, 2012 and 2011 is as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Energy	Ag	Corporate and Other	Reconciling Amounts	Total
	(Dollars in thousands)				
For the year ended August 31, 2013:					
Revenues	\$12,982,293	\$31,909,791	\$69,238	\$(481,465)	\$44,479,857
Cost of goods sold	11,846,458	31,341,453	(241)	(481,465)	42,706,205
Gross profit	1,135,835	568,338	69,479	—	1,773,652
Marketing, general and administrative	172,136	312,616	68,871		553,623
Operating earnings	963,699	255,722	608	—	1,220,029
Gain on investments	—	(27)	(155)		(182)
Interest, net	148,366	71,597	11,604		231,567
Equity income from investments	(1,357)	(15,194)	(80,799)		(97,350)
Income before income taxes	\$816,690	\$199,346	\$69,958	\$—	\$1,085,994
Intersegment revenues	\$(481,465)			\$481,465	\$—
Goodwill	\$1,165	\$77,000	\$6,898		\$85,063
Capital expenditures	\$452,859	\$198,892	\$7,622		\$659,373
Depreciation and amortization	\$120,447	\$105,654	\$15,690		\$241,791
Total identifiable assets	\$4,409,594	\$6,146,547	\$2,948,129		\$13,504,270
For the year ended August 31, 2012:					
Revenues	\$12,816,542	\$28,181,445	\$68,882	\$(467,583)	\$40,599,286
Cost of goods sold	11,514,463	27,544,040	(2,777)	(467,583)	38,588,143
Gross profit	1,302,079	637,405	71,659	—	2,011,143
Marketing, general and administrative	155,786	273,757	68,690		498,233
Operating earnings	1,146,293	363,648	2,969	—	1,512,910
Loss on investments	4,008	1,049	408		5,465
Interest, net	122,302	57,915	13,046		193,263
Equity income from investments	(7,537)	(22,737)	(72,115)		(102,389)
Income before income taxes	\$1,027,520	\$327,421	\$61,630	\$—	\$1,416,571
Intersegment revenues	\$(467,583)			\$467,583	\$—
Goodwill	\$1,165	\$73,630	\$6,898		\$81,693
Capital expenditures	\$294,560	\$168,825	\$5,226		\$468,611
Depreciation and amortization	\$109,496	\$92,538	\$17,598		\$219,632
Total identifiable assets	\$3,704,796	\$7,316,410	\$2,623,818		\$13,645,024
For the year ended August 31, 2011:					
Revenues	\$11,467,381	\$25,767,033	\$64,809	\$(383,389)	\$36,915,834
Cost of goods sold	10,694,687	25,204,301	(2,611)	(383,389)	35,512,988
Gross profit	772,694	562,732	67,420	—	1,402,846
Marketing, general and administrative	142,708	229,369	66,421		438,498
Operating earnings	629,986	333,363	999	—	964,348
Loss (gain) on investments	1,027	(118,344)	(9,412)		(126,729)
Interest, net	5,829	57,438	11,568		74,835
Equity income from investments	(6,802)	(40,482)	(84,130)		(131,414)

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Income before income taxes	\$629,932	\$434,751	\$82,973	\$—	\$1,147,656
Intersegment revenues	\$(383,389)			\$383,389	\$—
Goodwill	\$1,165	\$18,346	\$6,898		\$26,409
Capital expenditures	\$198,692	\$107,866	\$4,112		\$310,670
Depreciation and amortization	\$126,018	\$79,231	\$15,445		\$220,694

We have international sales, which are predominantly in our Ag segment. The following table represents our sales, based on the geographic locations in which the sales originated, for the years ended August 31, 2013, 2012 and 2011:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	2013	2012	2011
	(Dollars in millions)		
North America	\$39,918	\$37,503	\$35,287
South America	2,511	1,444	1,066
EMEA	1,040	1,064	277
APAC	680	290	6
	\$44,149	\$40,301	\$36,636

Note 12 Fair Value Measurements

Accounting Standards Codification Topic (ASC) 820, Fair Value Measures and Disclosures (ASC 820) defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in a principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

We determine fair market values of readily marketable inventories, derivative contracts and certain other assets, based on the fair value hierarchy established in ASC 820, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. ASC 820 describes three levels within its hierarchy that may be used to measure fair value, which are as follows:

Level 1: Values are based on unadjusted quoted prices in active markets for identical assets or liabilities. These assets and liabilities include exchange traded derivative contracts, Rabbi Trust investments, deferred compensation investments and available-for-sale investments.

Level 2: Values are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. These assets and liabilities include marketable inventories, interest rate swaps, forward commodity and freight purchase and sales contracts, flat price or basis fixed derivative contracts and other OTC derivatives whose value is determined with inputs that are based on exchange traded prices, adjusted for location specific inputs that are primarily observable in the market or can be derived principally from, or corroborated by, observable market data.

Level 3: Values are generated from unobservable inputs that are supported by little or no market activity and that are a significant component of the fair value of the assets or liabilities. These unobservable inputs would reflect our own estimates of assumptions that market participants would use in pricing related assets or liabilities. Valuation techniques might include the use of pricing models, discounted cash flow models or similar techniques.

The following table presents assets and liabilities, included on 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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	2013			
	Quoted Prices	Significant	Significant	Total
	in	Other	Unobservable	
	Active	Observable	Inputs	
	Markets	Inputs	(Level 3)	
	for Identical	(Level 2)		
	Assets	(Level 1)		
	(Level 1)			
	(Dollars in thousands)			
Assets:				
Readily marketable inventories		\$1,203,383		\$1,203,383
Commodity and freight derivatives	\$58,441	410,233		468,674
Interest rate swap derivatives		24,139		24,139
Foreign currency derivatives	6,894	185		7,079
Other assets	114,084			114,084
	\$179,419	\$1,637,940		\$1,817,359
Liabilities:				
Commodity and freight derivatives	\$59,184	\$399,710		\$458,894
Interest rate swap derivatives		248		248
Foreign currency derivatives	5,925			5,925
Accrued liability for contingent crack spread				
payments			\$134,134	134,134
related to purchase of noncontrolling interests				
	\$65,109	\$399,958	\$134,134	\$599,201
	2012			
	Quoted Prices			
	in	Significant	Significant	Total
	Active	Other	Unobservable	
	Markets	Observable	Inputs	
	for Identical	Inputs	(Level 3)	
	Assets	(Level 2)		
	(Level 1)			
	(Dollars in thousands)			
Assets:				
Readily marketable inventories		\$1,702,757		\$1,702,757
Commodity and freight derivatives	\$122,013	948,787		1,070,800
Foreign currency derivatives	978			978
Other assets	75,000			75,000
	\$197,991	\$2,651,544		\$2,849,535
Liabilities:				
Commodity and freight derivatives	\$201,475	\$645,452		\$846,927
Interest rate swap derivatives		544		544
Foreign currency derivatives	2,388			2,388
Accrued liability for contingent crack spread				
payments			\$127,516	127,516
related to purchase of noncontrolling interests				

\$203,863 \$645,996 \$127,516 \$977,375

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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, deferred compensation investments 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 derivatives 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 payments 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.

Quantitative Information about Level 3 Fair Value Measurements

Item	Fair Value August 31, 2013	Valuation Technique	Unobservable Input	Range (Weighted Average)
Accrued liability for contingent crack spread payments related to purchase of noncontrolling interests	\$ 134,134	Adjusted Black Scholes option pricing model	Forward crack spread margin on August 31 (a)	\$20.46-\$22.07 (\$20.97)
			Contractual target crack spread margin (b)	\$17.50
			Expected volatility (c)	80.31%
			Risk-free interest rate (d)	1.80-2.60% (2.23%)
			Expected life - years (e)	1.00-4.00 (2.64)

(a) Represents 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 yield curves for U.S. Treasury securities

(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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 years ended August 31, 2013 and 2012:

	Level 3 Liabilities	
	Accrued Liability for Contingent Crack Spread Payments Related to Purchase of Noncontrolling Interests	
	2013	2012
	(Dollars in thousands)	
Balance - beginning of year	\$ 127,516	
Purchases		\$ 105,188
Amounts currently payable	(16,491)
Total losses included in cost of goods sold	23,109	22,328
Balance - end of year	\$ 134,134	\$ 127,516

Note 13 Commitments and Contingencies

Environmental

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

Contingencies

In May 2013, we initiated a voluntary recall of certain soy protein products produced at our Ashdod, Israel facility following one customer's report to us of a positive test result for salmonella in product purchased from us. We notified applicable food safety regulators, including the Israel Ministry of Health and the U.S. Food and Drug Administration, of both the positive test result and our determination to conduct a voluntary recall. We have received no reports of salmonella-related illness in relation to the recalled products. We estimate our range of loss associated with this recall to be between \$14.4 million and \$39.7 million. During the year ended August 31, 2013, we recorded a reserve of \$25.0 million, which is the amount within the range that we believe is the best estimate given the claims experience so far. We maintain product liability and general liability insurance (which includes product liability coverage), which we believe will offset some related product liability expenses. However, as of August 31, 2013, no insurance recoveries have been recorded related to this incident.

Other Litigation and Claims

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

Grain Storage

As of August 31, 2013 and 2012, we stored grain for third parties totaling \$454.9 million and \$441.3 million, respectively. Such stored commodities and products are not our property and, therefore, are not included in our inventories on our Consolidated Balance Sheets.

Guarantees

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

We are a guarantor for lines of credit and performance obligations of related companies. Our bank covenants allow maximum guarantees of \$1.0 billion, of which \$39.8 million was outstanding on August 31, 2013. 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 August 31, 2013.

Credit Commitments

CHS Capital has commitments to extend credit to customers as long as there is no violation of any condition established in the contracts. As of August 31, 2013, CHS Capital's customers have additional available credit of \$1.0 billion.

Lease Commitments

We are committed under operating lease agreements for approximately 2,600 rail cars with remaining terms of one to 13 years. In addition, we have commitments under other operating leases for various refinery, manufacturing and transportation equipment, vehicles and office space. Some leases include purchase options at not less than fair market value at the end of the lease terms.

Total rental expense for all operating leases was \$81.5 million, \$74.6 million and \$66.2 million for the years ended August 31, 2013, 2012 and 2011, respectively.

Minimum future lease payments required under noncancelable operating leases as of August 31, 2013 were as follows:

	Rail Cars	Vehicles	Equipment and Other	Total
	(Dollars in thousands)			
2014	\$18,875	\$13,006	\$45,965	\$77,846
2015	18,331	9,803	35,934	64,068
2016	17,310	6,959	29,699	53,968
2017	16,203	4,451	21,906	42,560
2018	11,608	2,480	13,527	27,615
Thereafter	10,830	685	32,210	43,725
Total minimum future lease payments	\$93,157	\$37,384	\$179,241	\$309,782

Purchase Obligations

As of August 31, 2013 and 2012, we had purchase obligations of \$5.4 billion and \$6.3 billion, respectively, which were not recorded on our Consolidated Balance Sheets. Such purchase obligations are legally binding and enforceable agreements to purchase goods or services that specify all significant terms, including fixed or minimum quantities; fixed, minimum or variable price provisions; and time of the transactions. Minimum future payments required under noncancelable purchase obligations as of August 31, 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	\$510,705	\$63,387	\$137,237	\$89,700	\$220,381
Other contractual obligations	4,871,767	4,713,927	80,454	10,459	66,927
Total purchase obligations	\$5,382,472	\$4,777,314	\$217,691	\$100,159	\$287,308

Long-term unconditional purchase obligations primarily relate to pipeline and grain handling take-or-pay and through-put agreements. The discounted, aggregate amount of the minimum required payments under long-term unconditional purchase obligations, based on current exchange rates at August 31, 2013 was \$423.9 million. Total payments under these arrangements were \$62.4 million, \$47.8 million and \$60.8 million for the years ended August 31, 2013, 2012 and 2011, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 14 Supplemental Cash Flow and Other Information

Additional information concerning supplemental disclosures of cash flow activities for the years ended August 31, 2013, 2012 and 2011 is as follows:

	2013	2012	2011
	(Dollars in thousands)		
Net cash paid during the period for:			
Interest	\$256,538	\$155,888	\$73,557
Income taxes	23,228	27,671	1,046
Other significant noncash investing and financing transactions:			
Capital equity certificates issued in exchange for Ag acquisitions	18,211	29,155	6,453
Accrual of dividends and equities payable	390,153	578,809	400,216

Note 15 Related Party Transactions

Related party transactions with equity investees for the years ended August 31, 2013, 2012 and 2011, respectively and balances as of August 31, 2013 and 2012, respectively are as follows:

	2013	2012	2011
	(Dollars in thousands)		
Sales	\$2,963,468	\$2,185,348	\$3,004,303
Purchases	1,535,176	1,143,285	1,461,391
		2013	2012
		(Dollars in thousands)	
Receivables		\$25,159	\$51,716
Payables		31,485	60,659

The related party transactions were primarily with TEMCO, Horizon Milling, United Harvest and Ventura Foods.

Note 16 Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, net of taxes, as of August 31, 2013 and 2012 are as follows:

	2013	2012
	(Dollars in thousands)	
Pension and other postretirement, net of tax benefit of \$(104,024) and \$(145,031) in 2013 and 2012, respectively	\$(165,611)	\$(228,727)
Unrealized net gain on available for sale investments, net of tax expense of \$1,461 and \$858 in 2013 and 2012, respectively	2,370	1,391
Cash flow hedges, net of tax expense (benefit) of \$7,204 and \$(2,347) in 2013 and 2012, respectively	11,685	(3,806)
Foreign currency translation adjustment, net of tax benefit of \$(3,274) and \$(891) in 2013 and 2012, respectively	(5,311)	(1,445)
Accumulated other comprehensive loss, including noncontrolling interests	(156,867)	(232,587)
Accumulated other comprehensive loss attributable to noncontrolling interests		

Accumulated other comprehensive loss attributable to CHS Inc.	\$(156,867)	\$(232,587)
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Note 17 Acquisitions

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NCRA:

On November 29, 2011, our Board of Directors approved a stock transfer agreement, dated as of November 29, 2011, between us and GROWMARK, Inc. (Growmark), and a stock transfer agreement, dated as of November 29, 2011, between us and MFA Oil Company (MFA). Pursuant to these agreements, we have begun to acquire from Growmark and MFA shares of Class A common stock and Class B common stock of NCRA representing approximately 25.571% of NCRA's outstanding capital stock. Prior to the first closing, we owned the remaining approximately 74.429% of NCRA's outstanding capital stock as of August 31, 2012 and accordingly, upon completion of the acquisitions contemplated by these agreements, NCRA will be a wholly-owned subsidiary. As of August 31, 2013, our ownership was 79.2% and with the closing in September 2013, our ownership increased to 84.0%.

Pursuant to the agreement with Growmark, we will acquire stock representing approximately 18.616% of NCRA's outstanding capital stock in four separate closings held or to be held on September 1, 2012, September 1, 2013, September 1, 2014 and September 1, 2015, for an aggregate base purchase price of \$255.5 million (approximately \$48.0 million of which has or will be paid at each of the first three closings, and \$111.4 million of which will be paid at the final closing). In addition, Growmark is entitled to receive up to two contingent purchase price payments following each individual closing, calculated as set forth in the agreement with Growmark, if the average crack spread margin referred to therein over the fiscal year ending on August 31 of the calendar year in which the contingent payment date falls exceeds a specified target.

Pursuant to the agreement with MFA, we will acquire stock representing approximately 6.955% of NCRA's outstanding capital stock in four separate closings held or to be held on September 1, 2012, September 1, 2013, September 1, 2014 and September 1, 2015, for an aggregate base purchase price of \$95.5 million (approximately \$18.0 million of which has or will be paid at each of the first three closings, and \$41.6 million of which will be paid at the final closing). In addition, MFA is entitled to receive up to two contingent purchase price payments following each individual closing, calculated as set forth in the agreement with MFA, if the average crack spread margin referred to therein over the fiscal year ending on August 31 of the calendar year in which the contingent payment date falls exceeds a specified target.

As all conditions associated with the purchase have been met, we have accounted for this transaction as a forward purchase contract which required recognition in the first quarter of fiscal 2012 in accordance with ASC Topic 480, Distinguishing Liabilities from Equity (ASC 480). As a result, we are no longer including the noncontrolling interests related to NCRA as a component of equity. Instead, we recorded the present value of the future payments to be made to Growmark and MFA as a liability on our Consolidated Balance Sheets as of November 30, 2011. The liability as of August 31, 2013 and 2012 was \$275.4 million and \$334.7 million, including interest accretion of \$6.7 million and \$6.0 million, respectively. Noncontrolling interests in the amount of \$337.1 million was reclassified and an additional adjustment to equity in the amount of \$96.7 million was recorded as a result of the transaction. The equity adjustment included the initial fair value of the crack spread contingent payments of \$105.2 million. The fair value of the liability associated with the crack spread contingent payments was calculated utilizing an average price option model, an adjusted Black-Scholes pricing model commonly used in the energy industry to value options. As of August 31, 2013 and 2012, the fair value of the crack spread contingent payments was \$150.6 million and \$127.5 million, respectively, and is included on our Consolidated Balance Sheets in other liabilities with an increase of \$23.1 million and \$22.3 million included in cost of goods sold in our Consolidated Statements of Operations during the years ended August 31, 2013 and 2012, respectively. The first crack spread contingent payment in the amount of \$16.5 million was made in October 2013. The portion of NCRA earnings attributable to Growmark and MFA for the first quarter of fiscal 2012, prior to the transaction date, were included in net income attributable to noncontrolling interests. Beginning in the second quarter of fiscal 2012, in accordance with

ASC 480, earnings are no longer attributable to the noncontrolling interests, and patronage earned by Growmark and MFA is included as interest, net in our Consolidated Statements of Operations. During the years ended August 31, 2013 and 2012, \$142.4 million and \$107.2 million, respectively, was included in interest for the patronage earned by Growmark and MFA.

Solbar:

On February 9, 2012, we completed the acquisition of Solbar Industries Ltd., an Israeli company (Solbar), included in our Ag segment. Effective upon the closing of the merger, each outstanding share of Solbar was converted into the right to receive \$4.00 in cash, without interest, and each outstanding Solbar stock option was terminated in exchange for a cash payment in an amount per share equal to the difference between the applicable exercise price per share and \$4.00, for total consideration paid of \$128.7 million, net of cash acquired of \$6.6 million. Solbar provides soy protein ingredients to manufacturers in the meat, vegetarian, beverage, bars and crisps, confectionary, bakery, and pharmaceutical manufacturing markets. This acquisition deepens our presence in the value-added soy protein market. The fair market value of net assets was determined by market valuation reports using Level 3 inputs. Allocation of purchase price for this transaction resulted in goodwill of \$39.8 million, which is nondeductible for tax purposes, and definite-lived intangible assets of \$23.3 million. As this acquisition is not material, proforma results of operations are not presented. Solbar and its subsidiaries operate primarily in the

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countries of Israel, China and the U.S. The acquisition resulted in fair value measurements that are not on a recurring basis and did not have a material impact on our consolidated results of operations. Purchase accounting has been finalized and fair values assigned to the net assets acquired were as follows:

	(Dollars in thousands)
Current assets	\$ 74,240
Investments	961
Property, plant and equipment	71,324
Goodwill	39,794
Definite-lived intangible assets	23,306
Current liabilities	(63,417)
Long-term debt	(15,849)
Other liabilities	(1,694)
Total net assets acquired	\$ 128,665

Creston:

In November 2011, we acquired an oilseed crushing facility in Creston, Iowa for \$32.3 million.

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