CHS INC
Form S-1/A
January 25, 2006

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As filed with the Securities and Exchange Commission on January 24, 2006

Registration No. 333-129994

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 1
to
Form S-2
on
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CHS INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Minnesota	**41-0251095**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

5500 Cenex Drive
Inver Grove Heights, Minnesota 55077
(651) 355-6000
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

David Kastelic
Senior Vice President and General Counsel
CHS Inc.
5500 Cenex Drive
Inver Grove Heights, Minnesota 55077
(651) 355-3712
Fax (651) 355-4554
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:

R. Kirkland Cozine
Michael W. Clausman
Dorsey & Whitney LLP
50 South Sixth Street
Minneapolis, Minnesota 55402
(612) 340-2600
Fax (612) 340-8738

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

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If the registrant elects to deliver its latest annual report to security holders, or a complete and legible facsimile thereof, pursuant to Item 11(a)(1) of this form, check the following box. o

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

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. o

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 statement number of the earlier effective registration statement for the same offering. o

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

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SUBJECT TO COMPLETION DATED JANUARY 24, 2006

PROSPECTUS

912,804 Shares

CHS Inc.

8% Cumulative Redeemable Preferred Stock

We are issuing 912,804 shares of our 8% Cumulative Redeemable Preferred Stock to redeem $23,824,184.40 of our patrons equities that have been outstanding for longer than 10 years. Subject to the exceptions described below in Plan of Distribution, shares of preferred stock issued in redemption of the patrons equities will be issued only to non-individual active members whose pro rata share of the redemption amount is equal to or greater than $500 and, for each member eligible to receive such preferred stock, only in a number that does not exceed 12,379 shares of preferred stock (which equals one-quarter of one percent (0.25%) of our total shares of preferred stock outstanding as of the end of the 2005 calendar year). See Membership in CHS and Authorized Capital Patrons Equities for a description of patrons equities and our annual pro rata redemptions of patrons equities. The amount of patrons equities that will be redeemed with each share of preferred stock issued will be $26.10, which is the greater of $25.17 (equal to the $25.00 liquidation preference per share of preferred stock plus $0.17 of accumulated dividends from and including January 1, 2006 to and including January 31, 2006) or the closing price for one share of the preferred stock on January 23, 2006. There will not be any cash proceeds from the issuance of the preferred stock. However, by issuing shares of preferred stock in redemption of patrons equities, we will make the cash that we would otherwise have used to redeem those patrons equities available for working capital purposes.

Holders of the preferred stock are entitled to receive cash dividends at the rate of $2.00 per share per year. Dividends are payable quarterly in arrears when, as and if declared on March 31, June 30, September 30 and December 31 of each year (each, a payment date), except that if a payment date is a Saturday, Sunday or legal holiday, the dividend is paid without interest on the next day that is not a Saturday, Sunday or legal holiday. Dividends payable on the preferred stock are cumulative. The preferred stock is subject to redemption and has the preferences described in this prospectus. The preferred stock is not convertible into any of our other securities and is non-voting except in certain limited circumstances.

The preferred stock is traded on The NASDAQ National Market under the trading symbol CHSCP. On January 23, 2006, the closing price of the preferred stock was $26.10 per share.

Ownership of our preferred stock involves risks. See Risk Factors beginning on page 6.

We expect to issue the preferred stock on or about January 31, 2006.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to

the contrary is a criminal offense.

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

The date of this prospectus is January 1 , 2006.

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IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized any other person to provide you with different or additional information. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates. We are not making an offer of these securities in any state where the offer is not permitted. The information in this prospectus is current as of the date on the front of this prospectus.

References in this prospectus, and the documents incorporated by reference in this prospectus, to CHS, CHS Cooperatives, Cenex Harvest States Cooperatives, the Company, we, our and us refer to CHS Inc., a Minnesot cooperative corporation, and its subsidiaries. We maintain a web site at http://www.chsinc.com. Information contained in our website does not constitute part of this prospectus.

All references to preferred stock in this prospectus are to our 8% Cumulative Redeemable Preferred Stock unless the context requires otherwise.

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PROSPECTUS SUMMARY

The following summary highlights information we present in greater detail elsewhere in this prospectus and in the information incorporated by reference in it. This summary may not contain all of the information that is important to you and you should carefully consider all of the information contained or incorporated by reference in this prospectus. This prospectus contains forward-looking statements that are subject to risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements. These factors include those listed under Risk Factors and elsewhere in this prospectus.

CHS Inc.

CHS Inc. (referred to herein as CHS, we or us) is one of the nation s leading integrated agricultural companies. As a cooperative, we are owned by farmers and ranchers and their local cooperatives from the Great Lakes to the Pacific Northwest and from the Canadian border to Texas. We also have preferred stockholders that own shares of our 8% Cumulative Redeemable Preferred Stock, which is listed on The NASDAQ National Market under the symbol CHSCP. On December 31, 2005, we had 4,951,434 shares of preferred stock outstanding. We buy commodities from and provide products and services to our members and other customers, both domestic and international. We provide a wide variety of products and services, from initial agricultural inputs such as fuels, farm supplies, crop nutrients and crop protection products, to agricultural outputs that include grains and oilseeds, grain and oilseed processing and food products. A portion of our operations are conducted through equity investments and joint ventures whose operating results are not fully consolidated with our results; rather, a proportionate share of the income or loss from those entities is included as a component in our net income under the equity method of accounting. For the fiscal year ended August 31, 2005, our total revenues were $11.9 billion, and net income was $250.0 million.

Only producers of agricultural products and associations of producers of agricultural products may be our members. Our earnings derived from cooperative business are allocated to patrons based on the volume of business they do with us. We allocate these earnings to our members in the form of patronage refunds (which are also called patronage dividends) in cash and patron s equities, which may be redeemed over time. Earnings derived from non-members, which are not allocated patronage, are taxed at regular corporate rates and are retained by us as unallocated capital reserve. We also receive patronage refunds from the cooperatives in which we are a member, if those cooperatives have earnings to distribute and we qualify for patronage refunds from them.

Our origins date back to the early 1930s with the founding of the predecessor companies of Cenex, Inc. and Harvest States Cooperatives. CHS Inc. emerged as the result of the merger of the two entities in 1998, and is headquartered in Inver Grove Heights, Minnesota. In August 2003, we changed our name from Cenex Harvest States Cooperatives to CHS Inc.

Our operations are organized into three business segments: Energy, Ag Business and Processing. Other business operations, which primarily include our insurance, hedging and other services related to crop production, are included in Corporate and Other.

Energy

We are the nation s largest cooperative energy company based on revenues and identifiable assets, with operations that include petroleum refining and pipelines; the supply, marketing and distribution of refined fuels (gasoline, diesel, and other energy products); the blending, sale and distribution of lubricants; and the wholesale supply of propane. Our Energy business segment processes crude oil into refined petroleum products at refineries in Laurel, Montana (wholly-owned) and McPherson, Kansas (an entity in which we have an approximate 74.5% ownership interest) and sells those products under the Cenex brand to member cooperatives and others through a network of approximately 1,600 independent retail sites, including approximately 800 that operate Cenex/Ampride convenience stores.

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Ag Business

Our Ag Business segment includes agronomy, country operations and grain marketing. We conduct our wholesale and some of our retail agronomy operations through our 50% ownership interest in Agriliance, LLC (Agriliance), which is one of North America s largest wholesale distributors of crop nutrients, crop protection products and other agronomy products based upon annual sales. Our country operations purchases a variety of grains from our producer members and other third parties, and provides cooperative members and producers with access to a full range of products and services including farm supplies and programs for crop and livestock production. Through our grain marketing operations, we are the nation s largest cooperative marketer of grain and oilseed based on grain storage capacity and grain sales and we purchase grain directly and indirectly from agricultural producers primarily in the midwestern and western United States.

Processing

Our Processing business segment converts raw agricultural commodities into ingredients for finished food products or into finished consumer food products. We have focused on areas that allow us to utilize the products supplied by our member producers. These areas are oilseed processing, wheat milling and foods.

The Issuance

We are issuing 912,804 shares of our 8% Cumulative Redeemable Preferred Stock to redeem $23,824,184.40 of our patrons equities that have been outstanding for longer than 10 years. Subject to the exceptions described below in Plan of Distribution, shares of preferred stock issued in redemption of the patrons equities will be issued only to non-individual active members whose pro rata share of the redemption amount is equal to or greater than $500 and, for each member eligible to receive such preferred stock, only in a number that does not exceed 12,379 shares of preferred stock (which equals one-quarter of one percent (0.25%) of our total shares of preferred stock outstanding as of the end of the 2005 calendar year). See Membership in CHS and Authorized Capital Patrons Equities for a description of patrons equities and our annual pro rata redemptions of patrons equities. The amount of patrons equities that will be redeemed with each share of preferred stock issued will be $26.10, which is the greater of $25.17 (equal to the $25.00 liquidation preference per share of preferred stock plus $0.17 of accumulated dividends from and including January 1, 2006 to and including January 31, 2006) or the closing price for one share of the preferred stock on The NASDAQ National Market on January 23, 2006. There will not be any cash proceeds from the issuance of the preferred stock. However, by issuing shares of preferred stock in redemption of patrons equities, we will make the cash that we would otherwise have used to redeem those patrons equities available for working capital purposes.

Terms of the Preferred Stock

Dividends	Holders of the preferred stock are entitled to receive cash dividends at the rate of $2.00 per share per year when, as and if declared by our board of directors. Dividends are cumulative and are payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year (each, a payment date), except that if a payment date is a Saturday, Sunday or legal holiday, the dividend is paid without interest on the next day that is not a Saturday, Sunday or legal holiday.
Liquidation Rights	In the event of our liquidation, holders of the preferred stock are entitled to receive $25.00 per share plus all dividends accumulated and unpaid on the shares to and including the date of liquidation, subject, however, to the rights of any of our securities that rank senior or on parity with the

preferred stock.

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Rank	As to payment of dividends and as to distributions of assets upon the liquidation, dissolution or winding up of CHS, whether voluntary or involuntary, the preferred stock ranks prior to: any patronage refund; any other class or series of our capital stock designated by our board of directors as junior to the preferred stock; and our common stock, if any. Shares of any class or series of our capital stock that are not junior to the preferred stock, rank equally with the preferred stock as to the payment of dividends and the distribution of assets.
Redemption at our Option	We may not redeem the preferred stock prior to February 1, 2008. On or after that date we may, at our option, redeem the preferred stock, in whole or from time to time in part, for cash at a price of $25.00 per share plus all dividends accumulated and unpaid on that share to and including the date of redemption.
Redemption at the Holder s Option	In the event of a change in control initiated by our board of directors, holders of the preferred stock will have the right, for a period of 90 days from the date of the change in control, to require us to repurchase their shares of preferred stock at a price of $25.00 per share plus all dividends accumulated and unpaid on that share to and including the date of redemption. Change in control is defined in Description of the Preferred Stock-Redemption at the Holder s Option.
No Exchange or Conversion Rights, No Sinking Fund	The preferred stock is not exchangeable for or convertible into shares of any other shares of our capital stock or any other securities or property. The preferred stock is not subject to the operation of any purchase, retirement or sinking fund.
Voting Rights	Holders of the preferred stock do not have voting rights, except as required by applicable law; provided, that the affirmative vote of two-thirds of the outstanding preferred stock will be required to approve: any amendment to our articles of incorporation or the resolutions establishing the terms of the preferred stock if the amendment adversely affects the rights or preferences of the preferred stock; or the creation of any class or series of equity securities having rights senior to the preferred stock as to the payment of dividends or distribution of assets upon the liquidation, dissolution or winding up of CHS.
No Preemptive Rights	Holders of the preferred stock have no preemptive right to acquire shares of any class or series of our capital stock.

Trading	The preferred stock is listed on The NASDAQ National Market under the symbol CHSCP .

Comparison of Rights	Holders of the preferred stock have different rights from those of holders of patrons equities. See Comparison of Rights of Holders of Patrons Equities and Rights of Holders of Preferred Stock.
Risk Factors	Ownership of our preferred stock involves risks. See Risk Factors beginning on page 6.

Summary Consolidated Financial Data

The selected consolidated financial data below has been derived from our consolidated financial statements for the periods indicated below. The selected consolidated financial information for August 31, 2005, 2004 and 2003 and for the three months ended November 30, 2005 and 2004 should be read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this filing. In the opinion of our management, the unaudited historical financial data were prepared on the same basis as the audited historical financial data and include all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of this information. Results of operations for the three-month periods are not necessarily indicative of results of operations that may be expected for the full fiscal year.

Summary Consolidated Financial Data

	Three Months Ended November 30,		**Years Ended August 31,**				
	2005 (unaudited)	**2004 (unaudited)**	**2005**	**2004**	**2003**	**2002**	**2001**
	(Dollars in thousands)						
evenues:							
et sales	$ 3,413,018	$ 2,919,891	$ 11,769,093	$ 10,838,542	$ 9,196,666	$ 7,086,470	$ 7,407,883
ther revenues	45,123	44,517	171,963	141,165	122,473	107,351	117,378
	3,458,141	2,964,408	11,941,056	10,979,707	9,319,139	7,193,821	7,525,261
ost of goods sold	3,200,633	2,855,672	11,458,432	10,539,198	8,994,696	6,885,450	7,136,013
larketing, general nd administrative	48,302	44,627	191,246	195,639	169,298	165,359	168,161
perating earnings	209,206	64,109	291,378	244,870	155,145	143,012	221,087
ain on sale of nvestments			(13,013)	(14,666)			
ain on legal ettlements				(692)	(10,867)	(2,970)	
nterest	11,718	10,742	55,137	48,717	46,257	40,852	59,237
quity income from nvestments	(9,177)	(16,683)	(95,742)	(79,022)	(47,299)	(58,133)	(28,494
oss on impairment f investment		35,000					
linority interests	32,161	8,189	47,736	33,830	21,950	15,390	35,098
ncome from ontinuing perations before ncome taxes	174,504	26,861	297,260	256,703	145,104	147,873	155,246
ncome taxes	20,478	6,520	30,434	29,462	16,031	19,881	(24,708
ncome from ontinuing	154,026	20,341	266,826	227,241	129,073	127,992	179,954

perations							
Gain) loss on iscontinued perations, net of xes	(208)	2,345	16,810	5,909	5,232	1,854	1,400
et income	$ 154,234	$ 17,996	$ 250,016	$ 221,332	$ 123,841	$ 126,138	$ 178,554
alance Sheet Data:							
Vorking capital	$ 784,241	$ 616,916	$ 758,703	$ 493,440	$ 458,738	$ 249,115	$ 305,280
et property, plant nd equipment	1,395,180	1,283,033	1,359,535	1,249,655	1,122,982	1,057,421	1,023,872
otal assets	4,669,397	4,176,898	4,726,937	4,031,292	3,807,968	3,481,727	3,057,319
ong-term debt, ncluding current naturities	766,298	802,468	773,074	683,818	663,173	572,124	559,997
otal equities	1,836,450	1,624,193	1,757,897	1,628,086	1,481,711	1,289,638	1,261,153
atio of earnings to ixed charges and referred ividends(1)	10.7x	2.9x	4.3x	4.4x	3.1x	3.5x	3.4

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

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RISK FACTORS

You should be aware that ownership of our preferred stock involves risks. In consultation with your own financial and legal advisers, you should carefully consider the following discussion of risks that we believe to be significant, together with the other information contained or incorporated by reference in this prospectus, including the section entitled Special Note Regarding Forward-Looking Statements and our consolidated financial statements and the notes to them. The value of any preferred stock that you own may decline and you could lose the entire value of your preferred stock.

Risks Related to our Operations

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

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

- levels of worldwide and domestic supplies;
- capacities of domestic and foreign refineries;
- the ability of the members of OPEC to agree to and maintain oil price and production controls, and the price and level of foreign imports;
- disruption in supply;
- political instability or armed conflict in oil-producing regions;
- the level of consumer demand;
- the price and availability of alternative fuels;
- the availability of pipeline capacity; and
- domestic and foreign governmental regulations and taxes.

The long-term effects of these and other conditions on the prices of crude oil and refined petroleum products are uncertain and ever changing. Accordingly, we expect our margins on and the profitability of our energy business to fluctuate, possibly significantly, over time.

OUR OPERATING RESULTS COULD BE ADVERSELY AFFECTED IF OUR MEMBERS WERE TO DO BUSINESS WITH OTHERS RATHER THAN WITH US. We do not have an exclusive relationship with our members and our members are not obligated to supply us with their products or purchase products from us. Our members often have a variety of distribution outlets and product sources available to them. If our members were to sell their products to other purchasers or purchase products from other sellers, our revenues would decline and our results of operations could be adversely affected.

WE PARTICIPATE IN HIGHLY COMPETITIVE BUSINESS MARKETS IN WHICH WE MAY NOT BE ABLE TO CONTINUE TO COMPETE SUCCESSFULLY. We operate in several highly competitive business segments and our competitors may succeed in developing new or enhanced products that are better than ours, and may be more successful in marketing and selling their products than we are with ours. Competitive factors include price, service level, proximity to markets, product quality and marketing. In some of our business segments, such as Energy, we compete with companies that are larger, better known and have greater marketing, financial, personnel and other resources. As a result, we may not be able to continue to compete successfully with our competitors.

CHANGES IN FEDERAL INCOME TAX LAWS OR IN OUR TAX STATUS COULD INCREASE OUR TAX LIABILITY AND REDUCE OUR NET INCOME. Current federal income tax laws, regulations and interpretations regarding the taxation of cooperatives, which allow us to exclude income generated through business with or for a member (patronage income) from our taxable income, could be changed. If this occurred, or if in the future we were not eligible to be taxed as a cooperative, our tax liability would significantly increase and our net income significantly decrease.

WE INCUR SIGNIFICANT COSTS IN COMPLYING WITH APPLICABLE LAWS AND REGULATIONS. ANY FAILURE TO MAKE THE CAPITAL INVESTMENTS NECESSARY TO COMPLY WITH THESE LAWS AND REGULATIONS COULD EXPOSE US TO FINANCIAL LIABILITY. We are subject to numerous federal, state and local provisions regulating our business and operations and we incur and expect to incur significant capital and operating expenses to comply with these laws and regulations. We may be unable to pass on those expenses to customers without experiencing volume and margin losses. For example, capital expenditures for upgrading our refineries, largely to comply with regulations requiring the reduction of sulfur levels in refined petroleum products, are essentially complete at our Laurel, Montana refinery and at the National Cooperative Refinery Association s (NCRA) McPherson, Kansas refinery. Total expenditures for these projects as of November 30, 2005 include $86.8 million that has been spent at our Laurel refinery and $292.2 million that has been spent by NCRA at the McPherson refinery.

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

ENVIRONMENTAL LIABILITIES COULD ADVERSELY AFFECT OUR RESULTS AND FINANCIAL CONDITION. Many of our current and former facilities have been in operation for many years and, over that time, we and other operators of those facilities have generated, used, stored and disposed of substances or wastes that are or might be considered hazardous under applicable environmental laws, including chemicals and fuels stored in underground and above-ground tanks. Any past or future actions in violation of applicable environmental laws could subject us to administrative penalties, fines and injunctions. Moreover, future or unknown past releases of hazardous substances could subject us to private lawsuits claiming damages and to adverse publicity.

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

OUR OPERATIONS ARE SUBJECT TO BUSINESS INTERRUPTIONS AND CASUALTY LOSSES; WE DO NOT INSURE AGAINST ALL POTENTIAL LOSSES AND COULD BE SERIOUSLY HARMED BY UNEXPECTED LIABILITIES. Our operations are subject to business interruptions due to unanticipated events such as explosions, fires, pipeline interruptions, transportation delays, equipment failures, crude oil or refined product spills, inclement weather and labor disputes. For example:

- our oil refineries and other facilities are potential targets for terrorist attacks that could halt or discontinue production;

- our inability to negotiate acceptable contracts with unionized workers in our operations could result in strikes or work stoppages; and

- the significant inventories that we carry or the facilities that we own could be damaged or destroyed by catastrophic events, extreme weather conditions or contamination.

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

OUR COOPERATIVE STRUCTURE LIMITS OUR ABILITY TO ACCESS EQUITY CAPITAL. As a cooperative, we may not sell common equity in our company. In addition, existing laws and our articles of incorporation and bylaws contain limitations on dividends of 8% of any preferred stock that we may issue. These limitations restrict our ability to raise equity capital and may adversely affect our ability to compete with enterprises that do not face similar restrictions.

CONSOLIDATION AMONG THE PRODUCERS OF PRODUCTS WE PURCHASE AND CUSTOMERS FOR PRODUCTS WE SELL COULD ADVERSELY AFFECT OUR REVENUES AND OPERATING RESULTS. Consolidation has occurred among the producers of products we purchase, including crude oil and grain, and it is likely to continue in the future. Consolidation could increase the price of these products and allow suppliers to negotiate pricing and other contract terms that are less favorable to us. Consolidation also may increase the competition among consumers of these products which may require us to enter into supply relationships with a smaller number of producers resulting in potentially higher prices for the products we purchase.

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

IF OUR CUSTOMERS CHOSE ALTERNATIVES TO OUR REFINED PETROLEUM PRODUCTS OUR REVENUES AND PROFITS MAY DECLINE. Numerous alternative energy sources currently under development could serve as alternatives to our gasoline, diesel fuel and other refined petroleum products. If any of these alternative products become more economically viable or preferable to our products for environmental or other reasons, demand for our energy products would decline. Demand for our gasoline, diesel fuel and other refined petroleum products also could be adversely affected by increased fuel efficiencies.

OPERATING RESULTS FROM OUR AGRONOMY BUSINESS COULD BE VOLATILE AND ARE DEPENDENT UPON CERTAIN FACTORS OUTSIDE OF OUR CONTROL. Planted acreage, and consequently the volume of fertilizer and crop protection products applied, is partially dependent upon government programs and the perception held by the producer of demand for production. Weather conditions during the spring planting season and early summer spraying season also affect agronomy product volumes and profitability.

TECHNOLOGICAL IMPROVEMENTS IN AGRICULTURE COULD DECREASE THE DEMAND FOR OUR AGRONOMY AND ENERGY PRODUCTS. Technological advances in agriculture could decrease the demand for crop nutrients, energy and other crop input products and services that we provide. Genetically engineered seeds that resist disease and insects, or that meet certain nutritional requirements, could affect the demand for our crop nutrients and crop protection products. Demand for fuel that we sell could decline as technology allows for more efficient usage of equipment.

WE OPERATE SOME OF OUR BUSINESS THROUGH JOINT VENTURES IN WHICH OUR RIGHTS TO CONTROL BUSINESS DECISIONS ARE LIMITED. Several parts of our business, including in particular, our agronomy operations and portions of our grain marketing, wheat milling and foods operations, are operated through joint ventures with third parties. By operating a business through a joint venture, we have less control over business decisions than we have in our wholly-owned or majority-owned businesses. In particular, we generally cannot act on major business initiatives in our joint ventures without the consent of the other party or parties in those ventures.

Risks Related to the Preferred Stock

THE PREFERRED STOCK MAY NOT CONTINUE TO QUALIFY FOR LISTING ON THE NASDAQ NATIONAL MARKET. Although the preferred stock is listed on The NASDAQ National Market, it may not continue to qualify for listing. For example, we may be unable to satisfy the requirements regarding independent directors as now or subsequently in effect. If our preferred stock were delisted, the liquidity of the market for the preferred stock could be reduced, possibly significantly.

THE TRADING MARKET FOR THE PREFERRED STOCK MAY NOT BE MAINTAINED, WHICH MAY LIMIT YOUR ABILITY TO RESELL YOUR SHARES. The trading market for the preferred stock may not be maintained or provide any significant liquidity. If you decide to sell your preferred stock there may be either no or only a limited number of potential buyers. This, in turn, may affect the price you receive for your preferred stock or your ability to sell your preferred stock at all.

IF YOU ARE ABLE TO RESELL YOUR PREFERRED STOCK, MANY FACTORS MAY AFFECT THE PRICE YOU RECEIVE, WHICH MAY BE LOWER THAN YOU BELIEVE TO BE APPROPRIATE. As with other publicly traded securities, many factors could affect the market price of our preferred stock. In addition to those factors relating to CHS and the preferred stock described elsewhere in this Risk Factors section and elsewhere in this prospectus, the market price of our preferred stock could be affected by conditions in and perceptions of agricultural and energy markets and companies and also by broader, general market, political and economic conditions.

Furthermore, U.S. stock markets have experienced price and volume volatility that has affected many companies stock prices, often for reasons unrelated to the operating performance of those companies. Fluctuations such as these also may affect the market price of our preferred stock. As a result of these factors, you may only be able to sell your preferred stock at prices below those you believe to be appropriate. The trading price for the preferred stock may at any time be less than its issue price pursuant to this prospectus or its liquidation value.

ISSUANCES OF SUBSTANTIAL AMOUNTS OF PREFERRED STOCK COULD ADVERSELY AFFECT THE MARKET PRICE OF OUR PREFERRED STOCK. From time to time in the future, we expect to again issue shares of preferred stock to our members in redemption of a portion of their patrons equities or other equity securities and may do so as frequently as annually. We expect these shares to be freely tradeable upon issuance to our members, and some or all members who receive preferred stock may seek to sell their shares in the public market. Furthermore, from time to time we may sell additional shares of preferred stock to the public. Future issuances or sales of our preferred stock or the availability of our preferred stock for sale may adversely affect the market price for our preferred stock or our ability to raise capital by offering equity securities.

THE TERMS OF THE PREFERRED STOCK ARE FIXED AND CHANGES IN MARKET CONDITIONS, INCLUDING MARKET INTEREST RATES, MAY DECREASE THE MARKET PRICE FOR THE PREFERRED STOCK. The terms of the preferred stock, such as the 8% dividend rate, the amount of the liquidation preference and the redemption terms, are fixed and will not change, even if market conditions with respect to these terms fluctuate. This may mean that you could obtain a higher return from an investment in other securities. It also means that an increase in market interest rates is likely to decrease the market price for the preferred stock.

YOU WILL HAVE LIMITED VOTING RIGHTS. As a holder of the preferred stock, you will be entitled to vote only on actions that would amend, alter or repeal our articles of incorporation or the resolutions establishing the preferred stock if the amendment, alteration or repeal would adversely affect the rights or preferences of the preferred stock or that would create a series of senior equity securities. You will not have the right to vote on actions customarily subject to shareholder vote or approval, including the election of directors, the approval of significant transactions, and other amendments to our articles of incorporation that would not adversely affect the rights and preferences of the preferred stock.

PAYMENT OF DIVIDENDS ON THE PREFERRED STOCK IS NOT GUARANTEED. Although dividends on the preferred stock accumulate, our board of directors must approve the actual payment of those dividends. Our board of directors can elect at any time or from time to time, and for an indefinite duration, not to pay the accumulated dividends. Our board of directors could do so for any reason, including the following:

- unanticipated cash requirements;
- the need to make payments on our indebtedness;
- concluding that the payment of dividends would cause us to breach the terms of any agreement, such as financial ratio covenants; or
- determining that the payment of dividends would violate applicable law regarding unlawful distributions to shareholders.

WE CAN REDEEM THE PREFERRED STOCK AT OUR DISCRETION, WHICH REDEMPTION MAY BE AT A PRICE LESS THAN ITS MARKET PRICE AND MAY LIMIT THE TRADING PRICE FOR THE PREFERRED STOCK. We have the option of redeeming your shares at any time on or after February 1, 2008 for $25.00 per share plus any accumulated and unpaid dividends. If we redeem your shares, the redemption price may be less than the price you might receive if you were to sell your shares in the open market. In addition, the fact that the shares are redeemable may limit the price at which they trade.

THE AMOUNT OF YOUR LIQUIDATION PREFERENCE OR REDEMPTION PAYMENT IS FIXED AND YOU WILL HAVE NO RIGHT TO RECEIVE ANY GREATER PAYMENT REGARDLESS OF THE CIRCUMSTANCES. The payment due upon a liquidation or redemption is fixed at $25.00 per share plus accumulated and unpaid dividends. If we have value remaining after payment of this amount, you will have no right to participate in that value. If the market price for our preferred stock is greater than the redemption price, you will have no right to receive the market price from us upon liquidation or redemption.

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YOUR LIQUIDATION RIGHTS WILL BE SUBORDINATE TO THOSE OF HOLDERS OF OUR INDEBTEDNESS AND OF ANY SENIOR EQUITY SECURITIES WE HAVE ISSUED OR MAY ISSUE IN THE FUTURE AND MAY BE SUBJECT TO THE EQUAL RIGHTS OF OTHER EQUITY SECURITIES. There are no restrictions in the terms of the preferred stock on our ability to incur indebtedness. We can also, with the consent of two-thirds of the outstanding preferred stock, issue preferred equity securities that are senior with respect to liquidation payments to the preferred stock. If we were to liquidate our business, we would be required to repay all of our outstanding indebtedness and to satisfy the liquidation preferences of any senior equity securities that we may issue in the future before we could make any distributions to holders of our preferred stock. We could have insufficient cash available to do so, in which case you would not receive any payment on the amounts due you. Moreover, there are no restrictions on our ability to issue preferred equity securities that rank on a parity with the preferred stock as to liquidation preferences and any amounts remaining after the payment of senior securities would be split equally among all holders of those securities, which might result in your receiving less than the full amount due you.

USE OF PROCEEDS

The 912,804 shares of preferred stock that are being issued pursuant to this prospectus and the registration statement of which it is a part are being issued to redeem $23,824,184.40 of our patrons equities that have been outstanding for longer than 10 years. Subject to the exceptions described below in Plan of Distribution, shares of preferred stock issued in redemption of the patrons equities will be issued only to non-individual active members whose pro rata share of the redemption amount is equal to or greater than $500 and, for each member eligible to receive such preferred stock, only in a number that does not exceed 12,379 shares of preferred stock (which equals one-quarter of one percent (0.25%) of our total shares of preferred stock outstanding as of the end of the 2005 calendar year). See Membership and Authorized Capital Patrons Equities for a discussion of patrons equities and our redemption of them. There will not be any cash proceeds from the issuance of preferred stock. However, by issuing shares of preferred stock in redemption of patrons equities we will make the cash that we would otherwise have used to redeem those patrons equities available for working capital purposes.

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BUSINESS

We are one of the nation s leading integrated agricultural companies. As a cooperative, we are owned by farmers and ranchers and their local cooperatives from the Great Lakes to the Pacific Northwest and from the Canadian border to Texas. We also have preferred stockholders that own shares of our 8% Cumulative Redeemable Preferred Stock, which is listed on The NASDAQ National Market under the symbol CHSCP. On December 31, 2005, we had 4,951,434 shares of preferred stock outstanding. We buy commodities from and provide products and services to our members and other customers, both domestic and international. We provide a wide variety of products and services, from initial agricultural inputs such as fuels, farm supplies, crop nutrients and crop protection products, to agricultural outputs that include grains and oilseeds, grain and oilseed processing and food products. A portion of our operations are conducted through equity investments and joint ventures whose operating results are not fully consolidated with our results; rather, a proportionate share of the income or loss from those entities is included as a component in our net income under the equity method of accounting. For the fiscal year ended August 31, 2005, our total revenues were $11.9 billion, and net income was $250.0 million.

On January 1, 2005, we realigned our business segments based on an assessment of how our businesses operate and sell their products and services. As a result of this assessment, leadership changes were made, including the naming of a new executive vice president and chief operating officer, so that we now have three chief operating officers to lead our three business segments; Energy, Ag Business and Processing. Prior to the realignment, we operated five business segments; Agronomy, Energy, Country Operations and Services, Grain Marketing, and Processed Grains and Foods. Together our three business segments create vertical integration to link producers with consumers. Our Energy segment derives its revenues through refining, wholesaling and retailing of petroleum products. Our Ag Business segment derives its revenues through the origination and marketing of grain, including service activities conducted at export terminals, through the retail sales of petroleum and agronomy products, processed sunflowers, feed and farm supplies, and records equity income from investment in our agronomy joint ventures and other investments. Our Processing segment derives its revenues from the sales of soybean meal and soybean refined oil, and records equity income from two wheat milling joint ventures, a vegetable oil-based food manufacturing and distribution joint venture, and starting in November 2005, an ethanol production and marketing joint venture. We have moved other business operations previously included in our operating segments to Corporate and Other because of the nature of their products and services, as well as the relative revenue size of those businesses. These businesses primarily include our insurance, hedging and other service activities related to crop production that were previously included in our Country Operations and Services segment.

In May 2005, we sold the majority of our Mexican Foods business for proceeds of $38.3 million resulting in a loss on disposition of $6.2 million. During our first fiscal quarter ended November 30, 2005, we sold a facility in Newton, North Carolina for cash proceeds of $4.8 million. Assets of $0.3 million (primarily property, plant and equipment) are still held for sale at November 30, 2005, but no material gain or loss is expected upon disposition of the remaining assets. The operating results of the Mexican Foods business have been reclassified and reported as discontinued operations for all periods presented.

Only producers of agricultural products and associations of producers of agricultural products may be our members. Our earnings derived from cooperative business are allocated to patrons based on the volume of business they do with us. We allocate these earnings to our members in the form of patronage refunds (which are also called patronage dividends) in cash and patron s equities, which may be redeemed over time. Earnings derived from non-members, which are not allocated patronage are taxed at regular corporate rates and are retained by us as unallocated capital reserve. We also receive patronage refunds from the cooperatives in which we are a member, if those cooperatives have earnings to distribute and we qualify for patronage refunds from them.

Our origins date back to the early 1930s with the founding of the predecessor companies of Cenex, Inc. and Harvest States Cooperatives. CHS Inc. emerged as the result of the merger of the two entities in 1998, and is headquartered in Inver Grove Heights, Minnesota. In August 2003, we changed our name from Cenex Harvest States Cooperatives to CHS Inc.

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Our international sales information and segment information in Notes 2 and 12 to the consolidated financial statements are incorporated by reference into the following business segment descriptions.

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

ENERGY

Overview

We are the nation s largest cooperative energy company based on revenues and identifiable assets, with operations that include petroleum refining and pipelines; the supply, marketing and distribution of refined fuels (gasoline, diesel and other energy products); the blending, sale and distribution of lubricants; and the wholesale supply of propane. Our Energy business segment processes crude oil into refined petroleum products at refineries in Laurel, Montana (wholly-owned) and McPherson, Kansas (an entity in which we have an approximate 74.5% ownership interest) and sells those products under the Cenex brand to member cooperatives and others through a network of approximately 1,600 independent retail sites, including approximately 800 that operate Cenex/Ampride convenience stores.

Operations

Laurel Refinery. Our Laurel, Montana refinery processes medium and high sulfur crude oil into refined petroleum products that primarily include gasoline, diesel, and asphalt. Our Laurel refinery sources approximately 90% of its crude oil supply from Canada, with the balance obtained from domestic sources, and we have access to Canadian and northwest Montana crude through our wholly-owned Front Range Pipeline, LLC and other common carrier pipelines. Our Laurel refinery also has access to Wyoming crude via common carrier pipelines from the south.

Our Laurel facility processes approximately 55,000 barrels of crude oil per day to produce refined products that consist of approximately 40% gasoline, 30% diesel and other distillates, and 30% asphalt and other residual products. During fiscal 2005, the Board of Directors approved the installation of a coker unit at Laurel, along with other refinery improvements, which will allow us to extract a greater volume of high value gasoline and diesel fuel from a barrel of crude oil and less relatively low value asphalt. Total cost for this project is expected to be approximately $325 million, with completion in about thirty months. Refined fuels produced at Laurel, Montana are available via the Yellowstone Pipeline to western Montana terminals and to Spokane and Moses Lake, Washington, south via common carrier pipelines to Wyoming terminals and Denver, Colorado, and east via our wholly-owned Cenex Pipeline, LLC to Glendive, Montana, and Minot and Fargo, North Dakota.

McPherson Refinery. The McPherson, Kansas refinery is owned and operated by National Cooperative Refinery Association (NCRA), of which we own approximately 74.5%. The McPherson refinery processes low and medium sulfur crude oil into gasoline, diesel and other distillates, propane, and other products. McPherson sources approximately 95% of its crude oil from Kansas, Oklahoma and Texas through NCRA-owned and common carrier pipelines.

The McPherson refinery processes approximately 80,000 barrels of crude oil per day to produce refined products that consist of approximately 53% gasoline, 39% diesel and other distillates, and 8% propane and other products. Approximately 90% of the refined fuels are shipped via NCRA s proprietary products pipeline to its terminal in Council Bluffs, Iowa and to other markets via common carrier pipelines. The remaining refined fuel products are loaded into trucks at the McPherson refinery.

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

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Products and Services

Our Energy business segment produces and sells (primarily wholesale) gasoline, diesel, propane, asphalt, lubricants, and other related products and provides transportation services. We obtain the petroleum products that we sell from our Laurel and McPherson refineries, and from third parties.

Sales and Marketing; Customers

We make approximately 70% of our refined fuel sales to members, with the balance sold to non-members. Sales are made wholesale to member cooperatives and through a network of independent retailers that operate convenience stores under the Cenex/Ampride tradename. We sold approximately 1.4 billion gallons of gasoline and approximately 1.5 billion gallons of diesel fuel in fiscal year 2005. We also blend, package and wholesale auto and farm machinery lubricants to both members and non-members. In our fiscal year 2005, our lubricants operations sold approximately 21 million gallons of lube oil. We are one of the nation s largest propane wholesalers based on revenues. In our fiscal year 2005, our propane operations sold approximately 784 million gallons of propane. Most of the propane sold in rural areas is for heating and agricultural usage. Annual sales volumes of propane vary greatly depending on weather patterns and crop conditions.

Industry; Competition

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

Like many other refineries, our Energy business segment s refineries are currently focusing their capital spending on reducing pollution and at the same time increasing production to pay for those expenditures. In particular, these refineries are currently working to comply with the Environmental Protection Agency low sulfur fuel regulations required by 2006, which are intended to lower the sulfur content of gasoline and diesel. Capital expenditures for upgrading our refineries, largely to comply with regulations requiring the reduction of sulfur levels in refined petroleum products, are essentially complete at our Laurel, Montana refinery and at the National Cooperative Refinery Association s (NCRA) McPherson, Kansas refinery. Total expenditures for these projects as of November 30, 2005 include $86.8 million that has been spent at our Laurel refinery and $292.2 million that has been spent by NCRA at the McPherson refinery.

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

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

Summary Operating Results

Summary operating results and identifiable assets for our Energy business segment for the fiscal years ended August 31, 2005, 2004 and 2003 are shown below:

	2005	2004	2003
		(Dollars in thousands)	
Revenues:			
Net sales	$ 5,782,948	$ 4,028,248	$ 3,648,093
Other revenues	10,085	9,193	5,655
	5,793,033	4,037,441	3,653,748
Cost of goods sold	5,489,425	3,784,260	3,470,726
Marketing, general and administrative	62,077	66,493	63,740
Operating earnings	241,531	186,688	119,282
Gain on sale of investments	(862)	(14,666)	
Interest	13,947	13,819	16,401
Equity income from investments	(3,478)	(1,399)	(1,353)
Minority interests	46,741	32,507	20,782
Income before income taxes	$ 185,183	$ 156,427	$ 83,452
Intersegment sales	$ (170,642)	$ (121,199)	$ (94,209)
Total identifiable assets August 31	$ 2,238,614	$ 1,591,254	$ 1,449,652

AG BUSINESS

Our Ag Business segment includes agronomy, country operations and grain marketing.

Agronomy

Overview

We conduct our wholesale and some of our retail agronomy operations through our 50% ownership interest in Agriliance, LLC (Agriliance). Agriliance is one of North America s largest wholesale distributors of crop nutrients, crop protection products and other agronomy products based upon annual sales. Our 50% ownership interest in Agriliance is treated as an equity method investment, and therefore, Agriliance s revenues and expenses are not reflected in our operating results. Agriliance has its own line of financing that is without recourse to us.

In August 2005, we sold 81% of our 20% ownership interest in CF Industries, Inc. (CF), a crop nutrients manufacturer and distributor, in an initial public offering. After the initial public offering, our ownership interest in the company was reduced to approximately 3.9%. Prior to the initial public offering, Agriliance entered into a multi-year supply contract with CF. As a result, given our small ownership interest in the company, we now consider the relationship to be as a supplier rather than a strategic joint venture.

There is significant seasonality in the sale of crop nutrients and crop protection products and services, with peak activity coinciding with the planting and input seasons.

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Operations

Agriliance is one of the nation s largest wholesale distributors of crop nutrients (fertilizers) and crop protection products (insecticides, fungicides and pesticides) based on sales, accounting for an estimated 14% of the U.S. market for crop nutrients and approximately 24% of the U.S. market for crop protection products. As a wholesale distributor, Agriliance has warehouse, distribution and service facilities located throughout the country. Agriliance also owns and operates retail agricultural units primarily in the southern United States. In addition, Agriliance blends and packages crop protection products under the Agri Solutions brand. Agriliance purchased approximately 31% of its fertilizer from CF during fiscal year 2005, and its other suppliers include Mosaic, PCS, PIC and Koch. Most of Agriliance s crop protection products are purchased from Monsanto, Syngenta, Dow, Bayer, Dupont and BASF.

Agriliance was formed in 2000 when CHS, Farmland Industries Inc. (Farmland) and Land O Lakes, Inc. (Land O Lakes) contributed their respective agronomy businesses to the new company in consideration for ownership interests in the venture. We hold our interests in Agriliance through United Country Brands, LLC (UCB), a wholly-owned holding company.

In April 2003, we acquired a 13.1% additional economic interest in the crop protection products business of Agriliance (the CPP Business) for a cash payment of $34.3 million. After the transaction, the economic interests in Agriliance were owned 50% by Land O Lakes, 25% plus an additional 13.1% of the CPP Business by us and 25% less 13.1% of the CPP Business by Farmland. The ownership or governance interests in Agriliance did not change with the purchase of this additional economic interest. The Agriliance earnings were split among the members based upon the respective economic interests of each member.

On April 30, 2004, we purchased all of Farmland s remaining interests in Agriliance and UCB for $27.5 million in cash. We now own 50% of the economic and governance interests in Agriliance. We continue to account for the investment using the equity method of accounting.

Products and Services

Agriliance wholesales and retails crop nutrients that include nitrogen and potassium based products, and crop protection products that include insecticides, fungicides and pesticides. In addition, Agriliance blends and packages 8% of the products it sells under the Agri Solutions brand. Agriliance also provides field and technical services, including soil testing, adjuvant and herbicide formulation, application and related services.

Sales and Marketing; Customers

Agriliance distributes agronomy products through approximately 2,200 local cooperatives from Ohio to the West Coast and from the Canadian border south to Kansas. Agriliance also provides sales and services through 57 Agriliance Service Centers and other retail outlets. Agriliance s largest customer is our country operations business, also included in our Ag Business segment. In 2005, Agriliance sold approximately $1.9 billion of crop nutrient products and approximately $1.8 billion of crop protection and other products.

Industry; Competition

Regulation. The agronomy operations are subject to laws and related regulations and rules designed to protect the environment that are administered by the Environmental Protection Agency, the Department of Transportation and similar government agencies. These laws, regulations and rules govern the discharge of materials to the environment, air and water; reporting storage of hazardous wastes; the transportation, handling and disposition of wastes; and the labeling of pesticides and similar substances. Failure to comply with these laws, regulations and rules could subject

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

The wholesale and retail distribution of agronomy products is highly competitive and dependent upon relationships with agricultural producers, local cooperatives and growers, proximity to producers and local

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cooperatives and competitive pricing. Moreover, the crop protection products industry is mature with slow growth predicted for the future, which has led distributors and suppliers to turn to consolidation and strategic partnerships to benefit from economies of scale and increased market share. Agriliance competes with other large agronomy distributors, as well as other regional or local distributors and retailers. Agriliance competes on the strength of its relationships with CHS and Land O Lakes members, its purchasing power and competitive pricing, and its attention to service in the field.

Major competitors of Agriliance in crop nutrient distribution include Agrium, Mosaic, Koch, UAP and United Suppliers. Major competitors of Agriliance in crop protection products distribution include Helena, UAP, Tenkoz and numerous smaller distribution companies.

At August 31, 2005, our equity investment in Agriliance was $177.9 million. We recognize earnings from Agriliance using the equity method of accounting, which results in us including our ownership percentage of Agriliance s net earnings as equity income from investments.

Country Operations

Overview

Our country operations purchases a variety of grains from our producer members and other third parties, and provides cooperative members and producers with access to a full range of products and services including farm supplies and programs for crop and livestock production. Country operations operates at 304 locations dispersed throughout Minnesota, North Dakota, South Dakota, Montana, Nebraska, Kansas, Colorado, Idaho, Washington and Oregon. Most of these locations purchase grain from farmers and sell agronomy products, energy products and feed to those same producers and others, although not all locations provide every product and service.

Products and Services

Grain Purchasing. We are one of the largest country elevator operators in North America based on revenues. Through a majority of our elevator locations, the country operations business purchases grain from member and non-member producers and other elevators and grain dealers. Most of the grain purchased is either sold through our grain marketing operations or used for local feed and processing operations. For the year ended August 31, 2005, country operations purchased approximately 345 million bushels of grain, primarily wheat (174 million bushels), corn (90 million bushels) and soybeans (40 million bushels). Of these bushels, 316 million were purchased from members and 237 million were sold through our grain marketing operations.

Other Products. Our country operations manufactures and sells other products, both directly and through ownership interests in other entities. These include seed; crop nutrients; energy products; animal feed ingredients, supplements and products; animal health products; crop protection products; and processed sunflowers. We sell agronomy products at 166 locations, feed products at 123 locations and energy products at 110 locations.

Fin-Ag, Inc. Through our wholly-owned subsidiary Fin-Ag, Inc., we provide seasonal cattle feeding and swine financing loans, facility financing loans and crop production loans to our members. Most of these loans were sold to ProPartners (an affiliate of CoBank) under a financing program in which we guarantee a portion of the loans. Our guarantee exposure on August 31, 2005, was approximately $33.4 million. Financing under this program is expected to decrease as future financing is done through our recently formed 49% owned joint venture, Cofina Financial, LLC (described in greater detail under Corporate and Other below).

Industry; Competition

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

Competition. Competitors for the purchase of grain include other elevators and large grain marketing companies. Competitors for farm supply include a variety of cooperatives, privately held and large national companies. We compete primarily on the basis of price, services and patronage.

Grain Marketing

Overview

We are the nation s largest cooperative marketer of grain and oilseed based on grain storage capacity and grain sales, handling about 1.2 billion bushels annually. During fiscal year 2005, we purchased approximately 64% of our total grain volumes from individual and cooperative association members and our country operations, with the balance purchased from third parties. We arrange for the transportation of the grains either directly to customers or to our owned or leased grain terminals and elevators awaiting delivery to domestic and foreign purchasers. We primarily conduct our grain marketing operations directly, but do conduct some of our business through two 50% owned joint ventures.

Operations

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

We own export terminals, river terminals, and elevators involved in the handling and transport of grain. Our river terminals at Savage and Winona, Minnesota, and Davenport, Iowa are used to load grains onto barges for shipment to both domestic and export customers via the Mississippi River system. Our export terminal at Superior, Wisconsin, provides access to the Great Lakes and St. Lawrence Seaway, and our export terminal at Myrtle Grove, Louisiana serves the Gulf market. In the Pacific Northwest, we conduct our grain marketing operations through United Harvest, LLC (a 50% joint venture with United Grain Corporation), and TEMCO, LLC (a 50% joint venture with Cargill, Incorporated). United Harvest, LLC, operates grain terminals in Vancouver and Kalama, Washington, and primarily exports wheat. TEMCO, LLC, operates an export terminal in Tacoma, Washington, and primarily exports corn and soybeans. These facilities serve the Pacific market, as well as domestic grain customers in the western United States. We also own two 110-car shuttle-receiving elevator facilities in Friona, Texas and Collins, Mississippi that serve large-scale feeder cattle, dairy and poultry producers in those regions. In 2003, we opened an office in Sao Paulo, Brazil, for the procurement of soybeans for our grain marketing operations international customers.

Our grain marketing operations purchases most of its grain during the summer and fall harvest period. Because of our geographic location and the fact that we are further from our export facilities, the grain that we handle tends to be sold later than after the harvest period in other parts of the country. However, as many producers have significant on-farm storage capacity and in light of our own storage capacity, our grain marketing operations buys and ships grain throughout the year. Due to the amount of grain purchased and held in inventory, our grain marketing operations has significant working capital needs at various times of the year. The amount of borrowings for this purpose, and the interest rate charged on those borrowings, directly affect the profitability of our grain marketing operations.

Products and Services

The primary grains purchased by our grain marketing operations for the year ended August 31, 2005 were corn (415 million bushels), wheat (398 million bushels) and soybeans (296 million bushels). Of the total grains purchased by our grain marketing operations during the year ended August 31, 2005, 509 million bushels were purchased from our individual and cooperative association members, 237 million bushels were purchased from our country operations, and the remainder was purchased from third parties.

Sales and Marketing; Customers

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

Industry; Competition

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

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

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

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

Archer Daniels Midland (ADM), Cargill, Incorporated (Cargill), ConAgra, Bunge and Louis Dreyfus, each of which handle grain volumes of more than one billion bushels annually.

The results of our grain marketing operations may be adversely affected by relative levels of supply and demand, both domestic and international, commodity price levels (including grain prices reported on national

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markets) and transportation costs and conditions. Supply is affected by weather conditions, disease, insect damage, acreage planted and government regulations and policies. Demand may be affected by foreign governments and their programs, relationships of foreign countries with the United States, the affluence of foreign countries, acts of war, currency exchange fluctuations and substitution of commodities. Demand may also be affected by changes in eating habits, by population growth, and by increased or decreased per capita consumption of some products.

Summary Operating Results

Summary operating results and identifiable assets for our Ag Business segment for the fiscal years ended August 31, 2005, 2004 and 2003 are shown below (for each period below, the amounts have been reclassified to account for the change in our reportable segments described on page 12 under Business):

	2005	2004	2003
		(Dollars in thousands)	
Revenues:			
Net sales	$ 5,556,923	$ 6,219,917	$ 5,228,267
Other revenues	119,782	92,662	85,256
	5,676,705	6,312,579	5,313,523
Cost of goods sold	5,545,373	6,192,528	5,213,704
Marketing, general and administrative	85,570	86,202	70,193
Operating earnings	45,762	33,849	29,626
Gain on sale of investments	(11,358)		
Gain on legal settlements		(692)	(10,867)
Interest	20,535	18,812	16,343
Equity income from investments	(55,473)	(47,488)	(19,681)
Minority interests	(41)	(24)	(27)
Income before income taxes	$ 92,099	$ 63,241	$ 43,858
Intersegment sales	$ (9,640)	$ (18,372)	$ (2,650)
Total identifiable assets August 31	$ 1,604,571	$ 1,590,337	$ 1,529,211

PROCESSING

Overview

Our Processing business segment converts raw agricultural commodities into ingredients for finished food products or into finished consumer food products. We have focused on areas that allow us to utilize the products supplied by our member producers. These areas are oilseed processing, wheat milling and foods.

Regulation. Our Processing business segment s operations are subject to laws and related regulations and rules designed to protect the environment that are administered by the Environmental Protection Agency, the Department of Transportation and similar government agencies. These laws, regulations and rules govern the discharge of materials to environment, air and water; reporting storage of hazardous wastes; and the transportation, handling and disposition of wastes. Our Processing business segment s operations are also subject to laws and related regulations and rules administered by the United States Department of Agriculture, the Federal Food and Drug Administration, and other federal, state, local and foreign governmental agencies that govern the processing, packaging, storage, distribution, advertising, labeling, quality and safety of food and grain products. Failure to comply with these laws, regulations and rules could subject us or our foods partners to administrative penalties, injunctive relief, civil remedies and possible recalls of products. We believe that we are in compliance with these laws, regulations and rules in all material respects and do not expect continued compliance to have a material effect on our capital expenditures, earnings or competitive position.

Oilseed Processing

Our oilseed processing operations convert soybeans into soybean meal, soyflour, crude soyoil, refined soybean oil and associated by-products. These operations are conducted at a facility in Mankato, Minnesota that can crush approximately 39 million bushels of soybeans on an annual basis, producing approximately 940,000 short tons of soybean meal and 460 million pounds of crude soybean oil. The same facility is able to produce approximately 1 billion pounds of refined soybean oil annually. Another crushing facility in Fairmont, Minnesota has a crushing capacity and crude soyoil output similar to our Mankato facility. The facility in Fairmont became operational in the first quarter of our fiscal year 2004.

Our oilseed processing operations produce three primary products: refined oils, soybean meal and soyflour. Refined oils are used in processed foods, such as margarine, shortening, salad dressings and baked goods and, to a lesser extent, for certain industrial uses such as plastics, inks and paints. Soybean meal has high protein content and is used for feeding livestock. Soyflour is used in the baking industry, as a milk replacement in animal feed and in industrial applications.

Our soy processing facilities are located in areas with a strong production base of soybeans and end-user market for the meal and soyflour. We purchase virtually all of our soybeans from members. Our oilseed crushing operations currently produce approximately 85% of the crude oil that we refine, and purchase the balance from outside suppliers.

Our customers for refined oil are principally large food product companies located throughout the United States. However, over 50% of our customers are located in the Midwest due to relatively lower freight costs and slightly higher profitability potential. Our largest customer for refined oil products is Ventura Foods, LLC (Ventura Foods), in which we hold a 50% ownership interest and with which we have a long-term supply agreement to supply minimum quantities of edible soybean oils as long as we maintain a minimum 25.5% ownership interest and our price is comparative with other suppliers of the product. Our sales to Ventura Foods were $94.6 million in fiscal year 2005. We also sell soymeal to over 600 customers, primarily feed lots and feed mills in southern Minnesota. Commodity Specialists Company accounts for 20% of soymeal sold and Land O Lakes/Purina Feed, LLC accounts for 15% of soymeal sold. We sell soyflour to customers in the baking industry both domestically and for export.

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

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

Wheat Milling

In January 2002, we formed a joint venture with Cargill named Horizon Milling, LLC (Horizon Milling), in which we hold an ownership interest of 24%, with Cargill owning the remaining 76%. Horizon Milling is the largest U.S. wheat miller based on output volume. We own five mills that we lease to Horizon Milling. Sales and purchases of wheat and durum by us to Horizon Milling during our fiscal year 2005 were $206.2 million and $2.9 million, respectively. Horizon Milling s advance payments on grain to us were $7.1 million on August 31, 2005, and are included in Customer Advance Payments on our Consolidated Balance Sheet. We account for Horizon Milling using the equity method of accounting. At August 31, 2005, our equity investment value of assets leased to Horizon Milling was $87.9 million.

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Foods

Our primary focus in the foods area is Ventura Foods, LLC (Ventura Foods), which produces and distributes vegetable oil-based products such as margarine, salad dressing and other food products, and which is 50% owned by us.

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

Ventura Foods has 14 manufacturing and distribution locations across the United States. It sources its raw materials, which consist primarily of soybean oil, canola oil, cottonseed oil, peanut oil and various other ingredients and supplies, from various national suppliers, including our oilseed processing operations. It sells the products it manufactures to third parties as a contract manufacturer, as well as directly to retailers, food distribution companies and large institutional food service companies. Ventura Foods sales are approximately 60% in foodservice and the remainder split between retail and industrial customers who use edible oil products as ingredients in foods they manufacture for resale. During Ventura Foods 2005 fiscal year, Sysco accounted for 27% of its net sales. During our fourth quarter of fiscal year 2005, Ventura Foods purchased two Dean Foods businesses: Marie s dressings and Dean s dips. The transaction included a license agreement for Ventura Foods to use the Dean s trademark on dips.

Ventura Foods competes with a variety of large companies in the food manufacturing industry. Some of its major competitors are ADM, Cargill, Bunge, Unilever, ConAgra, ACH, Smuckers, Kraft and CF Sauer.

Ventura Foods was created in 1996 and at that time was owned 40% by us and 60% by Wilsey Foods, Inc., a majority owned subsidiary of Mitsui & Co., Ltd. In March 2000, we purchased an additional 10% interest from Wilsey Foods, Inc. bringing our total equity investment in Ventura Foods to 50%. We account for the Ventura Foods investment under the equity method of accounting. At August 31, 2005, our equity investment in Ventura Foods was $117.6 million.

Summary Operating Results

Summary operating results and identifiable assets for our Processing business segment for the fiscal years ended August 31, 2005, 2004 and 2003 are shown below (for each period below, the amounts have been reclassified to account for the change in our reportable segments described on page 12 under Business):

	2005	2004	2003
	(Dollars in thousands)		
Revenues:			
Net sales*	$ 610,006	$ 731,311	$ 417,863
Other revenues	1,522	2,698	2,306
	611,528	734,009	420,169
Cost of goods sold	604,418	703,344	407,823
Marketing, general and administrative	18,292	19,166	15,256
Operating (losses) earnings	(11,182)	11,499	(2,910)
Gain on sale of investments	(457)		
Interest	12,287	12,399	10,427
Equity income from investments	(36,202)	(29,966)	(26,056)
Income before income taxes	$ 13,190	$ 29,066	$ 12,719
Intersegment sales	$ (502)	$ (1,363)	$ (698)
Total identifiable assets August 31	$ 420,373	$ 415,761	$ 440,122

*The 2004 net sales increase from 2003 is primarily due to the additional crushing capacity of our Fairmont, Minnesota facility which began operation in our first quarter of fiscal year 2004.

PRICE RISK AND HEDGING

When we enter into a commodity purchase commitment we incur risks of carrying inventory, including risks related to price changes and performance (including delivery, quality, quantity and shipment period). 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 price or partially fixed price sales contracts in the event market prices increase.

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 (either a straight futures contract or an options futures contract) on regulated commodity futures exchanges for grain, and regulated mercantile exchanges for refined products and crude oil. The crude oil and most of the grain and oilseed volume we handle can be hedged. Some grains cannot be hedged because there are no futures for certain commodities. For those commodities, risk is managed through the use of forward sales and various pricing arrangements and to some extent cross-commodity futures hedging. While hedging activities reduce the risk of loss from changing market values of inventory, such activities also limit the gain potential which otherwise could result from changes in market prices of inventory. Our policy is to generally maintain hedged positions in grain. Our profitability from operations is primarily derived from margins on products sold and grain merchandised, not from hedging transactions. Hedging arrangements do not protect against nonperformance by counterparties to contracts, and therefore, contract values are reviewed and adjusted to reflect potential non-performance.

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.

At any one time, inventory and purchase contracts for delivery to us may be substantial. We have risk management policies and procedures that include net position limits. These limits are defined for each commodity and include both trader and management limits. This policy, and computerized procedures in grain marketing operations, requires 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 operations. The position limits are reviewed at least annually with our management. We monitor current market conditions and may expand or reduce our risk management policies 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.

EMPLOYEES

At August 31, 2005, we had approximately 6,370 full, part-time and seasonal employees, which included approximately 590 employees of NCRA. Of that total, approximately 1,930 were employed in our Energy segment, 3,400 in the country operations business (including approximately 1,140 seasonal and temporary employees), 450 in our grain marketing operations, 240 in our Processing segment and 350 in Corporate and Other. In addition to those employed directly by us, many employees work for joint ventures in which we have a 50% or less ownership interest, and are not included in these counts. A portion of our Ag Business and Processing segments are employed in this manner.

Employees in certain areas are represented by collective bargaining agreements. Refinery and pipeline workers in Laurel, Montana (186 employees), are represented by agreements with two unions (United Steel Workers of America (USWA) and Oil Basin Pipeliners Union (OBP)), for which agreements are in place through 2006 in regards to wages and benefits. The contracts covering the NCRA McPherson, Kansas refinery (267 employees in the USWA union) are also in place through 2006. There are approximately 166 employees in transportation and lubricant plant operations that are covered by other collective bargaining agreements that expire at various times. Production workers in our grain marketing operations (987 employees) are represented by agreements with three unions, which expire at various times in 2008, 2009 and 2010. Certain production workers in our oilseed processing operations are subject to collective bargaining agreements with the Bakery, Confectionary, Tobacco Worker and Grain Millers (BTWGM) (108 employees) and the Pipefitters Union (2 employees) for which agreements are in place through 2006. Finally, employees in our country operations are represented by collective bargaining agreements with two unions; the BTWGM (21 employees), with contracts expiring in December 2005 and June 2006, and the United Food and Commercial Workers (14 employees), with an expired contract that is currently being negotiated with expectations of a positive outcome.

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.

In October 2003, we and NCRA reached agreements with the Environmental Protection Agency (EPA) and the State of Montana s Department of Environmental Quality and the State of Kansas Department of Health and Environment, regarding the terms of settlements with respect to reducing air emissions at our Laurel, Montana and NCRA s McPherson, Kansas refineries. These settlements are part of a series of similar settlements that the EPA has negotiated with major refiners under the EPA s Petroleum Refinery Initiative. The settlements, which resulted from nearly three years of discussions, take the form of consent decrees filed with the U.S. District Court for the District of Montana (Billings Division) and the U.S. District Court for the District of Kansas. Each consent decree details specific capital improvements, supplemental environmental projects and operational changes that we and NCRA have agreed to implement at the relevant refinery over the next several years. The consent decrees also require us and NCRA to pay approximately $0.5 million in aggregate civil cash penalties. We anticipate that the aggregate capital expenditures for us and NCRA related to these settlements will range from approximately $20.0 million to $25.0 million over the next six years. We do not believe that the settlements will have a material adverse affect on us or NCRA.

PROPERTIES

We own or lease energy, grain handling and processing, and agronomy related facilities throughout the United States. Below is a summary of these locations.

Energy

Facilities in our Energy business segment include the following, all of which are owned except where indicated as leased:

Refinery	Laurel, Montana
Propane terminal	Glenwood, Minnesota
Transportation terminals/ repair facilities	12 locations in Iowa, Kansas, Minnesota, Montana, North Dakota, South Dakota, Texas, Washington and Wisconsin, 3 of which are leased
Petroleum & asphalt terminals/ storage facilities	9 locations in Montana, North Dakota and Wisconsin
Pump stations	11 locations in Montana and North Dakota
Pipelines:	
Cenex Pipeline, LLC	Laurel, Montana to Fargo, North Dakota
Front Range Pipeline, LLC	Canadian border to Laurel, Montana
Convenience stores/ gas stations	41 locations in Iowa, Minnesota, Montana, North Dakota, South Dakota and Wyoming, 11 of which are leased
Lubricant plants/ warehouses	3 locations in Minnesota, Ohio and Texas, 1 of which is leased

We have a 74.5% interest in NCRA, which owns and operates the following facilities:

Refinery	McPherson, Kansas
Petroleum terminals/ storage	2 locations in Iowa and Kansas
Pipeline	McPherson, Kansas to Council Bluffs, Iowa
Jayhawk Pipeline, LLC	Throughout Kansas, with branches in Oklahoma and Texas
Jayhawk stations	40 locations located in Kansas and Oklahoma

Ag Business

Within our Ag Business business segment, we own or lease the following facilities:

Country Operations

In our country operations, we own 304 agri-operations locations (of which some of the facilities are on leased land), 7 feed manufacturing facilities and 3 sunflower plants located in Minnesota, North Dakota, South Dakota, Montana, Nebraska, Kansas, Colorado, Idaho, Washington and Oregon.

Grain Marketing

We use grain terminals in our grain marketing operations at the following locations:

Collins, Mississippi (owned)
Davenport, Iowa (2 owned)

Friona, Texas (owned)
Kalama, Washington (leased)
Minneapolis, Minnesota (owned, idle)
Myrtle Grove, Louisiana (owned)
Savage, Minnesota (owned)
Spokane, Washington (owned)
Superior, Wisconsin (owned)
Winona, Minnesota (1 owned, 1 leased)

Processing

Within our Processing business segment, we own and lease the following facilities:

Oilseed Processing

We own a campus in Mankato, Minnesota, comprised of a soybean crushing plant, an oilseed refinery, a soyflour plant, a quality control laboratory and an administration office, and a crushing plant in Fairmont, Minnesota.

Wheat Milling

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

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

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.

Our internet address is www.chsinc.com.

MEMBERSHIP IN CHS AND AUTHORIZED CAPITAL

Introduction

We are an agricultural membership cooperative organized under Minnesota cooperative law to do business with member and non-member patrons. Our patrons, not us, are subject to income taxes on income from patronage sources. We are subject to income taxes on non-patronage-sourced income. See Tax Treatment below.

Distribution of Net Income; Patronage Dividends

We are required by our organizational documents annually to distribute net earnings derived from patronage business with members, after payment of dividends on equity capital, to members on the basis of patronage, except that our Board of Directors may elect to retain and add to our unallocated capital reserve an amount not to exceed 10% of the distributable net income from patronage business. Net income from non-patronage business may be distributed to members or added to the unallocated capital reserve, in whatever proportions our Board of Directors deems appropriate.

These distributions, referred to as patronage dividends, may be distributed in cash, patrons equities, revolving fund certificates, our securities, securities of others, or any combination designated by our Board of

Directors. Since 1998, our Board of Directors has distributed patronage dividends in the form of 30% cash and 70% patrons equities (see Patrons Equities below). Our Board of Directors may change the mix in the form of the patronage dividend in the future. In making distributions, our Board of Directors may use any method of allocation that, in its judgment, is reasonable and equitable. Patronage dividends distributed during the years ended August 31, 2005, 2004 and 2003 were $171.3 million ($51.6 million in cash), $95.2 million ($28.7 million in cash) and $88.3 million ($26.5 million in cash), respectively.

Patrons Equities

Patrons equities are in the form of a book entry and represent a right to receive cash or other property when we redeem them. Patrons equities form part of our capital, do not bear interest, and are not subject to redemption upon request of a member. Patrons equities are redeemable only at the discretion of our Board of Directors and in accordance with the terms of the redemption policy adopted by our Board of Directors, which may be modified at any time without member consent. A new policy was adopted effective September 1, 2004, whereby redemptions of capital equity certificates approved by our Board of Directors are divided into two pools, one for non-individuals (primarily member cooperatives) who may participate in an annual pro-rata program for equities older than 10 years, and another for individual members who are eligible for equity redemptions at age 72 or upon death. The amount that each non-individual member receives under the pro-rata program in any year will be determined by multiplying the dollars available for pro-rata redemptions that year as determined by our Board of Directors, by a fraction, the numerator of which is the amount of patronage certificates older than 10 years held by that member, and the denominator, of which is the sum of the patronage certificates older than 10 years held by all eligible non-individual members.

Cash redemptions of patrons and other equities during the years ended August 31, 2005, 2004 and 2003 were $23.7 million, $10.3 million and $31.1 million, respectively. An additional $20.0 million and $13.0 million of equities were redeemed by issuance of shares of our 8% Cumulative Redeemable Preferred Stock during the years ended August 31, 2005 and 2004, respectively.

Governance

We are managed by a Board of Directors of not less than 17 persons elected by the members at our annual meeting. Terms of directors are staggered so that no more than seven directors are elected in any year, and after our 2006 elections, the maximum number of directors elected in any year will be six. The Board of Directors is currently comprised of 17 directors. Our articles of incorporation and bylaws may be amended only upon approval of a majority of the votes cast at an annual or special meeting of our members, except for the higher vote described under Certain Antitakeover Measures below.

Membership

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

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

Voting Rights

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

Members who are individuals are entitled to one vote each. Individual members may exercise their voting power directly or through a patrons association associated with a grain elevator, feed mill, seed plant or any other of our facilities (with certain historical exceptions) recognized by our Board of Directors. The number of votes of patrons associations is determined under the same formula as cooperative association members.

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

Debt and Equity Instruments

We may issue debt and equity instruments to our current members and patrons, on a patronage basis or otherwise, and to persons who are neither members nor patrons. Capital Equity Certificates issued by us are subject to a first lien in favor of us for all indebtedness of the holder to us. As of August 31, 2005, our outstanding capital included patrons equities (consisting of capital equity certificates and non-patronage earnings certificates), 8% Cumulative Redeemable Preferred Stock and certain capital reserves.

Distribution of Assets upon Dissolution; Merger and Consolidation

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

Certain Antitakeover Measures

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

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

Tax Treatment

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

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

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

NCRA is not consolidated for tax purposes.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data below has been derived from our consolidated financial statements for the periods indicated below. The selected consolidated financial information for August 31, 2005, 2004 and 2003 and for the three months ended November 30, 2005 and 2004 should be read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this filing. In the opinion of our management, the unaudited historical financial data were prepared on the same basis as the audited historical financial data and include all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of this information. Results of operations for the three-month periods are not necessarily indicative of results of operations that may be expected for the full fiscal year.

Summary Consolidated Financial Data

	Three Months Ended November 30,		Years Ended August 31,				
	2005 (unaudited)	2004 (unaudited)	2005	2004	2003	2002	2001
	(Dollars in thousands)						
Revenues:							
Net sales	$ 3,413,018	$ 2,919,891	$ 11,769,093	$ 10,838,542	$ 9,196,666	$ 7,086,470	$ 7,407,883
Other revenues	45,123	44,517	171,963	141,165	122,473	107,351	117,378
	3,458,141	2,964,408	11,941,056	10,979,707	9,319,139	7,193,821	7,525,261
Cost of goods sold	3,200,633	2,855,672	11,458,432	10,539,198	8,994,696	6,885,450	7,136,013
Marketing, general and administrative	48,302	44,627	191,246	195,639	169,298	165,359	168,161
Operating earnings	209,206	64,109	291,378	244,870	155,145	143,012	221,087
Gain on sale of investments			(13,013)	(14,666)			
Gain on legal settlements				(692)	(10,867)	(2,970)	
Interest	11,718	10,742	55,137	48,717	46,257	40,852	59,237
Equity income from investments	(9,177)	(16,683)	(95,742)	(79,022)	(47,299)	(58,133)	(28,494)
Loss on impairment of investment		35,000					
Minority interests	32,161	8,189	47,736	33,830	21,950	15,390	35,098
Income from continuing operations before income taxes	174,504	26,861	297,260	256,703	145,104	147,873	155,246
Income taxes	20,478	6,520	30,434	29,462	16,031	19,881	(24,708)

Income from continuing operations	154,026	20,341	266,826	227,241	129,073	127,992	179,954
(Gain) loss on discontinued operations, net of taxes	(208)	2,345	16,810	5,909	5,232	1,854	1,400
Net income	$ 154,234	$ 17,996	$ 250,016	$ 221,332	$ 123,841	$ 126,138	$ 178,554
Balance Sheet Data:							
Working capital	$ 784,241	$ 616,916	$ 758,703	$ 493,440	$ 458,738	$ 249,115	$ 305,280
Net property, plant and equipment	1,395,180	1,283,033	1,359,535	1,249,655	1,122,982	1,057,421	1,023,872
Total assets	4,669,397	4,176,898	4,726,937	4,031,292	3,807,968	3,481,727	3,057,319
Long-term debt, including current maturities	766,298	802,468	773,074	683,818	663,173	572,124	559,997
Total equities	1,836,450	1,624,193	1,757,897	1,628,086	1,481,711	1,289,638	1,261,153

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The selected financial information below has been derived from our three business segments, and Corporate and Other, for the fiscal years ended August 31, 2005, 2004 and 2003 and for the three months ended November 30, 2005 and 2004 (for each period below, the amounts have been reclassified to account for the change in our reportable segments described on page 12 under Business). The intercompany sales between segments were $180.8 million, $140.9 million and $97.6 million for the fiscal years ended August 31, 2005, 2004 and 2003, respectively. The intercompany sales between segments were $58.0 and $45.4 million for the three months ended November 30, 2005 and 2004, respectively.

Summary Financial Data By Business Segment

	Three Months Ended November 30,		Years Ended August 31,		
			Energy		
	2005	2004	2005	2004	2003
Revenues:					
Net sales	$ 1,858,251	$ 1,417,165	$ 5,782,948	$ 4,028,248	$ 3,648,093
Other revenues	4,582	2,689	10,085	9,193	5,655
	1,862,833	1,419,854	5,793,033	4,037,441	3,653,748
Cost of goods sold	1,665,968	1,356,376	5,489,425	3,784,260	3,470,726
Marketing, general and administrative	15,858	13,978	62,077	66,493	63,740
Operating earnings	181,007	49,500	241,531	186,688	119,282
Gain on sale of investments			(862)	(14,666)	
Interest	3,767	3,172	13,947	13,819	16,401
Equity income from investments	(838)	(729)	(3,478)	(1,399)	(1,353)
Minority interests	32,127	7,945	46,741	32,507	20,782
Income from continuing operations before income taxes	$ 145,951	$ 39,112	$ 185,183	$ 156,427	$ 83,452
Intersegment sales	$ (55,563)	$ (45,067)	$ (170,642)	$ (121,199)	$ (94,209)
Total identifiable assets at end of period	$ 2,105,351	$ 1,638,657	$ 2,238,614	$ 1,591,254	$ 1,449,652

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	Three Months Ended November 30,		Years Ended August 31,		
			Ag Business		
	2005	2004	2005	2004	2003
Revenues:					
Net sales	$ 1,460,715	$ 1,405,753	$ 5,556,923	$ 6,219,917	$ 5,228,267
Other revenues	30,547	33,869	119,782	92,662	85,256
	1,491,262	1,439,622	5,676,705	6,312,579	5,313,523
Cost of goods sold	1,447,354	1,404,667	5,545,373	6,192,528	5,213,704
Marketing, general and administrative	21,416	20,487	85,570	86,202	70,193
Operating earnings	22,492	14,468	45,762	33,849	29,626
Gain on sale of investments			(11,358)		
Gain on legal settlements				(692)	(10,867)
Interest	3,505	4,233	20,535	18,812	16,343
Equity loss (income) from investments	2,261	(3,985)	(55,473)	(47,488)	(19,681)
Loss on impairment of investment		35,000			
Minority interests	34	(2)	(41)	(24)	(27)
Income (loss) from continuing operations before income taxes	$ 16,692	$ (20,778)	$ 92,099	$ 63,241	$ 43,858
Intersegment sales	$ (2,327)	$ (270)	$ (9,640)	$ (18,372)	$ (2,650)
Total identifiable assets at end of period	$ 1,736,940	$ 1,666,043	$ 1,604,571	$ 1,590,337	$ 1,529,211

	Three Months Ended November 30,		Years Ended August 31,		
			Processing		
	2005	2004	2005	2004	2003
Revenues:					
Net sales	$ 152,051	$ 142,376	$ 610,006	$ 731,311	$ 417,863
Other revenues	927	912	1,522	2,698	2,306
	152,978	143,288	611,528	734,009	420,169
Cost of goods sold	145,310	140,032	604,418	703,344	407,823
Marketing, general and administrative	4,958	4,118	18,292	19,166	15,256
Operating earnings (losses)	2,710	(862)	(11,182)	11,499	(2,910)

Gain on sale of investments			(457)		
Interest	2,423	3,032	12,287	12,399	10,427
Equity income from investments	(9,591)	(11,514)	(36,202)	(29,966)	(26,056)
Income from continuing operations before income taxes	$ 9,878	$ 7,620	$ 13,190	$ 29,066	$ 12,719
Intersegment sales	$ (109)	$ (66)	$ (502)	$ (1,363)	$ (698)
Total identifiable assets at end of period	$ 456,272	$ 395,361	$ 420,373	$ 415,761	$ 440,122

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	Three Months Ended November 30,		Years Ended August 31,		
	Corporate and Other				
	2006	2005	2005	2004	2003
Revenues:					
Net sales					
Other revenues	$ 9,067	$ 7,047	$ 40,574	$ 36,612	$ 29,256
	9,067	7,047	40,574	36,612	29,256
Cost of goods sold					
Marketing, general and administrative	6,070	6,044	25,307	23,778	20,109
Operating earnings	2,997	1,003	15,267	12,834	9,147
Gain on sale of investments			(336)		
Interest	2,023	305	8,368	3,687	3,086
Equity income from investments	(1,009)	(455)	(589)	(169)	(209)
Minority interests		246	1,036	1,347	1,195
Income from continuing operations before income taxes	$ 1,983	$ 907	$ 6,788	$ 7,969	$ 5,075
Total identifiable assets at end of period	$ 370,834	$ 476,837	$ 463,379	$ 433,940	$ 388,983

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Supplementary Financial Information

Supplementary financial information required by Item 302 of Regulation S-K for the three month period ended November 30, 2005 and each quarter during the years ended August 31, 2005 and 2004 is presented below.

	November 30, 2005
Net sales	$ 3,413,018
Total revenues	3,458,141
Gross profit	257,508
Income from continuing operations	154,026
Net income	154,234

	November 30,		2005	
	2004	February 28	May 31	August 31
Net sales	$ 2,919,891	$ 2,392,442	$ 3,088,403	$ 3,368,357
Total revenues	2,964,408	2,427,190	3,137,493	3,411,965
Gross profit	108,736	88,758	152,595	132,535
Income from continuing operations	20,341	19,718	109,861	116,906
Net income	17,996	8,723	106,946	116,351

	November 30,		2004	
	2003	February 28	May 31	August 31
Net sales	$ 2,471,265	$ 2,637,821	$ 2,799,127	$ 2,930,329
Total revenues	2,504,293	2,672,222	2,842,292	2,960,900
Gross profit	103,529	56,966	123,652	156,362
Income from continuing operations	51,462	9,484	83,123	83,172
Net income	50,739	8,511	81,389	80,693

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

Overview

We are a diversified company that provides grain, foods and energy resources to businesses and consumers. As a cooperative, we are owned by farmers, ranchers and their local cooperatives from the Great Lakes to the Pacific Northwest and from the Canadian border to Texas. We also have preferred stockholders that own shares of our 8% Cumulative Redeemable Preferred Stock.

We provide a full range of production agricultural inputs such as refined fuels, propane, farm supplies, animal nutrition and agronomy products, as well as services, which include hedging, financing and insurance 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 independent retailers. We purchase grains and oilseeds directly and indirectly from agricultural producers primarily in the midwestern and western United States. These grains and oilseeds are either sold to domestic and international customers, or further processed into a variety of food products.

On January 1, 2005, we realigned our business segments based on an assessment of how our businesses operate and the products and services they sell. As a result of this assessment, leadership changes were made, including the naming of a new executive vice president and chief operating officer, so that we now have three chief operating officers to lead our three business segments: Energy, Ag Business and Processing. Prior to the realignment, we operated five business segments: Agronomy, Energy, Country Operations and Services, Grain Marketing, and Processed Grains and Foods. Together, our three business segments create vertical integration to link producers with consumers. Our Energy segment produces and provides for the wholesale distribution of petroleum products and transports those products. Our Ag Business segment purchases and resells grains and oilseeds originated by our country operations, by our member cooperatives and by third parties, and also serves as wholesaler and retailer of crop inputs. Our Processing segment converts grains and oilseeds into value-added products.

Summary data for each of these segments for the three months ended November 30, 2005 and 2004 and the fiscal years ended August 31, 2005, 2004 and 2003 is shown on prior pages. Except as otherwise specified, references to years indicate the fiscal year ended August 31, 2005 or ended August 31 of the year referenced.

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

Many of our business activities are highly seasonal and operating results will vary throughout the year. Overall, our income is generally lowest during the second fiscal quarter and highest during the third fiscal quarter. Our business segments are subject to varying seasonal fluctuations. For example, in our Ag Business segment, 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 Business segment, our grain marketing operations are subject to fluctuations in volume and earnings based on producer harvests, world grain prices and demand. Our Energy segment generally experiences higher volumes and profitability in certain operating areas, such as refined products, in the summer and early fall when gasoline and diesel fuel usage is highest and is subject to global supply and demand forces. Other energy products, such as propane, may experience higher volumes and profitability during the winter heating and crop drying seasons.

Our revenue can be significantly affected by global market prices for commodities such as petroleum products, natural gas, grains, oilseeds and flour. Changes in market prices for commodities that we purchase without a corresponding change in the selling prices of those products can affect revenues and operating earnings. Commodity prices are affected by a wide range of factors beyond our control, including the weather, crop damage due to disease or insects, drought, the availability and adequacy of supply, government regulations and policies, world events, and general political and economic conditions.

While our sales and operating results are derived from businesses and operations which are wholly-owned and majority-owned, a portion of business operations are conducted through companies in which we hold ownership interests of 50% or less and do not control the operations. We account for these investments primarily using the equity method of accounting, wherein we record our proportionate share of income or loss reported by the entity as equity income from investments, without consolidating the revenues and expenses of the entity in our Consolidated Statements of Operations. These investments principally include our 50% ownership in each of the following companies: Agriliance, LLC (Agriliance), TEMCO, LLC (TEMCO) and United Harvest, LLC (United Harvest) included in our Ag Business segment; Ventura Foods, LLC (Ventura Foods), our 24% ownership in Horizon Milling, LLC (Horizon Milling) and our 28% ownership in US BioEnergy Corporation (US BioEnergy) included in our Processing segment; and our 49% ownership in Cofina Financial, LLC (Cofina) included in Corporate and Other.

Agriliance is owned and governed by United Country Brands, LLC (50%) and Land O Lakes, Inc. (50%). United Country Brands, LLC, was initially owned and governed 50% by us and 50% by Farmland Industries, Inc. (Farmland), and was formed solely to hold a 50% interest in Agriliance. Initially, our indirect share of earnings (economic interest) in Agriliance was 25%, which was the same as our ownership or governance interest. In April 2003, we acquired an additional 13.1% economic interest in the wholesale crop protection business of Agriliance (the CPP Business), which constituted only a part of the Agriliance business operations, for a cash payment of $34.3 million. After the transaction, the economic interests in Agriliance were owned 50% by Land O Lakes, 25% plus an additional 13.1% of the CPP Business by us and 25% less 13.1% of the CPP Business by Farmland. The ownership or governance interests in Agriliance did not change with the purchase of this additional economic interest. Agriliance s earnings were split among the members based upon the respective economic interests of each member. On April 30, 2004, we purchased all of Farmland s remaining interest in Agriliance for $27.5 million in cash. We now own 50% of the economic and governance interests in Agriliance, held through our 100% ownership interest in United Country Brands, LLC, and continue to account for this investment using the equity method of accounting.

In May 2005, we sold the majority of our Mexican Foods business for proceeds of $38.3 million resulting in a loss on disposition of $6.2 million. During our first fiscal quarter ended November 30, 2005, we sold a facility in Newton, North Carolina for cash proceeds of $4.8 million. Assets of $0.3 million (primarily property, plant and equipment) are still held for sale at November 30, 2005, but no material gain or loss is expected upon disposition of the remaining assets. The operating results of the Mexican Foods business have been reclassified and reported as discontinued operations for all periods presented.

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

Results of Operations

Comparison of the Three Months Ended November 30, 2005 and 2004

General. We recorded income from continuing operations before income taxes of $174.5 million during the three months ended November 30, 2005 compared to $26.9 million for the three months ended November 30, 2004, an increase of $147.6 million.

Our Energy segment generated income from continuing operations before income taxes of $146.0 million for the three months ended November 30, 2005 compared with $39.1 million for the three months ended November 30, 2004. This increase in earnings of $106.9 million (273%) is primarily attributable to improved profitability of $109.4 million on refined fuels, partially offset by decreased earnings of $2.5 million in our other energy operations.

Our Ag Business segment generated income from continuing operations before income taxes of $16.7 million for the three months ended November 30, 2005 compared to a loss of $20.8 million for the three months ended November 30, 2004. This increase in earnings of $37.5 million is primarily related to improved earnings of $35.0 million included in our agronomy operations. During the first quarter of fiscal 2005, we evaluated the carrying value of our investment in CF Industries, Inc. (CF), a domestic fertilizer manufacturer in which we held a minority interest. Our carrying value at that time of $153.0 million consisted primarily of non-cash patronage refunds received from CF over the years. Based upon indicative values from potential strategic buyers for the business and through other analyses, we determined at that time that the carrying value of our CF investment should be reduced by $35.0 million, resulting in an impairment charge to our first quarter in fiscal 2005. The net effect to first fiscal quarter 2005 income after taxes was $32.1 million.

In February 2005, after reviewing indicative values from strategic buyers, the board of directors of CF determined that a greater value could be derived for the business through an initial public offering of stock in the company. The initial public offering was completed in August 2005. Prior to the initial public offering, we held an ownership interest of approximately 20% in CF. Through the initial public offering, we sold approximately 81% of our ownership interest for cash proceeds of $140.4 million. Our book basis in the portion of our ownership interest sold through the initial public offering, after the $35.0 million impairment charge recognized in our first fiscal quarter results, was $95.8 million. As a result, we recognized a pretax gain of $44.6 million on the sale of that ownership interest during the fourth quarter of fiscal 2005. This gain, net of the impairment loss of $35.0 million recognized during the first quarter of fiscal 2005, resulted in a $9.6 million pretax gain recognized during fiscal 2005. The net effect to fiscal 2005 income, after taxes, was $8.8 million.

Also included in our Ag Business segment are country operations and grain marketing operations, which recorded improved earnings of $6.5 million and $3.0 million, respectively, primarily from increases of grain margins, and country operations agronomy and energy margins. These improvements in earnings were partially offset by decreases in earnings of $7.0 million from our other agronomy related joint ventures, mostly due to depressed earnings in Agriliance s southern retail operations and reduced wholesale crop protection products margins, which were partially offset by improved earnings in Agriliance s crop nutrient operations.

Our Processing segment generated income from continuing operations before income taxes of $9.9 million for the three months ended November 30, 2005 compared to $7.6 million for the three months ended November 30, 2004, an increase in earnings of $2.3 million (30%). Our oilseed processing earnings improved $3.9 million, primarily related to margins from increased soybean crushing volumes. Our share of earnings from Ventura Foods, our packaged foods joint venture, decreased $1.6 million compared to the prior year and is primarily related to increased general, selling and interest expenses due to a recent acquisition. Our shares of earnings from our wheat milling joint ventures were relatively flat compared to the prior three-month period. Our US BioEnergy Corporation investment showed a slight gain for the period ended November 30, 2005, offset by allocated interest on that investment.

Corporate and Other generated income from continuing operations before income taxes of $2.0 million for the three months ended November 30, 2005 compared to $0.9 million for the three months ended November 30, 2004, an increase in earnings of $1.1 million (119%) and reflects improved earnings in our business solutions operations.

Net Income. Consolidated net income for the three months ended November 30, 2005 was $154.2 million compared to $18.0 million for the three months ended November 30, 2004, which represents a $136.2 million increase in earnings.

Net Sales. Consolidated net sales were $3.4 billion for the three months ended November 30, 2005 compared to $2.9 billion for the three months ended November 30, 2004, which represents a $493.1 million (17%) increase.

Our Energy segment net sales, after elimination of intersegment sales, of $1.8 billion increased $430.6 million (31%) during the three months ended November 30, 2005 compared to the three months ended November 30, 2004. During the three months ended November 30, 2005 and 2004, our Energy segment recorded sales to our Ag Business segment of $55.6 million and $45.1 million, respectively. Intersegment sales are eliminated in deriving consolidated sales but are included for segment reporting purposes. The net sales increase of $430.6 million is comprised of an increase of $465.6 million primarily related to price appreciation on refined fuels and propane products, partially offset by $35.0 million due to decreased sales volume mainly

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of refined fuels and propane products. On a more product-specific basis, we own and operate two crude oil refineries where we produce approximately 60% of the refined fuels that we sell and we purchase the balance from other United States refiners and distributors. Refined fuels net sales increased $381.7 million (39%), of which $432.8 million was related to a net average selling price increase, partially offset by $51.1 million related to decreased volumes. The sales price of refined fuels increased $0.62 per gallon (44%) and volumes decreased 4% when comparing the three months ended November 30, 2005 with the same period a year ago. Higher crude oil costs and global supply and demand contributed to the increase in refined fuels selling prices. The reduced refined fuels volumes relate to a decrease in our unbranded gallons after the effects of Hurricane Katrina in early September 2005. Propane net sales increased by $5.3 million (3%), of which $37.8 million was related to a net average selling price increase, partially offset by $32.5 million due to decreased volumes compared to the same three-month period in the previous year. Propane prices increased $0.17 per gallon (18%) and sales volume decreased 13% in comparison to the same period of the prior year. Higher propane prices are reflective of the crude oil price increases during the three months ended November 30, 2005 compared to the same period in 2004. The reduced propane volume relates to a poor crop drying season due to drier crops coming off the fields during the 2005 harvest as compared to 2004.

Our Ag Business segment net sales, after elimination of intersegment sales, of $1.5 billion increased $52.9 million (4%) during the three months ended November 30, 2005 compared to the three months ended November 30, 2004. Grain net sales in our Ag Business segment totaled $1,232.4 million and $1,202.4 million during the three months ended November 30, 2005 and 2004, respectively. The net sales increase of $30.0 million (2%) is primarily attributable to $60.4 million related to a net increase in the average selling grain prices, partially offset by $30.4 million related to decreased volumes during the three months ended November 30, 2005 compared to the same period last fiscal year. Commodity prices, in general, showed slight increases with the average market price of soybeans and spring wheat approximately $0.36 and $0.25 per bushel higher, respectively, than the prices on those same grains during the prior three-month period, while corn was down approximately $0.04 per bushel, as compared to the three months ended November 30, 2004. Volumes decreased 2% during the three months ended November 30, 2005 compared with the same period of a year ago. The average sales price of all grain and oilseed commodities sold reflected an increase of $0.20 per bushel (5%). Our Ag Business segment non-grain net sales of $226.0 million increased by $22.9 million (11%) during the three months ended November 30, 2005 compared to the same period in 2004, primarily the result of increased sales of energy, crop nutrient, seed and feed products, partially offset by decreased crop protection products and sunflower sales. The average selling price of energy products increased due to overall market conditions while volumes were fairly consistent to the three months ended November 30, 2004.

Our Processing segment net sales, after elimination of intersegment sales, of $151.9 million increased $9.6 million (7%) during the three months ended November 30, 2005 compared to the three months ended November 30, 2004. Sales in processing consist entirely of our oilseed products. The oilseed processing increase of $14.9 million (26%) includes $18.4 million due to a 35% increase in sales volumes, partially offset by $3.5 million due to lower average sales price. Refined oilseed sales decreased $5.3 million (6%), of which $9.1 million was due to lower average sales price, partially offset by $3.8 million due to 5% increase in sales volume. The average selling price of processed oilseed decreased $10 per ton and the average selling price of refined oilseed products decreased $0.04 per pound compared to the same three-month period of the previous year. The change in price is primarily related to overall global market conditions for soybean meal and oil.

Other Revenues. Other revenues of $45.1 million increased $0.6 million (1%) during the three months ended November 30, 2005 compared to the three months ended November 30, 2004. The majority of other revenues are generated within our Ag Business segment and Corporate and Other. Our Ag Business segment s country operations elevator and agri-service centers receives other revenues from activities related to production agriculture which include; grain storage, grain cleaning, fertilizer spreading, crop protection product spraying and other services of this nature, and our grain marketing operations receives other revenues at our export terminals from activities related to loading vessels. Other revenues within Corporate and Other increased $2.0 million (29%), which includes increased revenues from our commodity hedging and other services. Our Energy segment other revenues of $4.6 million increased $1.9 million. These increases were partially offset by our Ag Business segment other revenues which decreased $3.3 million (10%), primarily related to reduced revenues from grain storage, drying and other services as compared to the same period ended in 2004.

Cost of Goods Sold. Cost of goods sold of $3.2 billion increased $345.0 million (12%) during the three months ended November 30, 2005 compared to the three months ended November 30, 2004.

Our Energy segment cost of goods sold, after elimination of intersegment costs, of $1.6 billion increased $299.1 million (23%) during the three months ended November 30, 2005 compared to the same period of the prior year, primarily due to increased average cost of refined fuels and propane products. On a more product-specific basis, the average cost of refined fuels increased by $0.57 (41%) per gallon, partially offset by decreased volumes of 4% compared to the three months ended November 30, 2004. The average cost increase on refined fuels is reflective of higher input costs at our two crude oil refineries and higher average prices on the refined products that we purchased for resale compared to the three months ended November 30, 2004. The average per unit cost of crude oil purchased for the two refineries increased 26% compared to the three months ended November 30, 2004. We process approximately 55,000 barrels of crude oil per day at our Laurel, Montana refinery and 80,000 barrels of crude oil per day at NCRA s McPherson, Kansas refinery. The average cost of propane increased $0.17 (18%) per gallon, partially offset by decreased volumes of 13% compared to the three months ended November 30, 2004. The average price of propane increased due to higher input costs and relates to global demand compared to the same period in the previous year.

Our Ag Business cost of goods sold, after elimination of intersegment costs, of $1.4 billion increased $40.6 million (3%) during the three months ended November 30, 2005 compared to the same period of the prior year. Grain cost of goods sold in our Ag Business segment totaled $1,204.7 million and $1,186.4 million during the three months ended November 30, 2005 and 2004, respectively. Grains and oilseeds procured through our Ag Business segment increased 2% compared to the three months ended November 30, 2004, primarily the result of a $0.16 (4%) average cost per bushel increase, partially offset by a decrease in volumes of 2% compared to the prior year. During the three months ended November 30, 2005, commodity prices on soybeans, spring wheat and corn were relatively comparable to the prices that were prevalent during the three months ended November 30, 2004. Our Ag Business segment cost of goods sold, excluding the cost of grains procured through this segment, increased primarily due to increases in the average selling price of energy products due to overall market conditions, and volume increases due to timing the placement of agronomy and seed products as compared to the three months ended November 30, 2004.

Our Processing segment cost of goods sold, after elimination of intersegment costs, of $145.2 million increased $5.2 million (4%) compared to the three months ended November 30, 2004, which was primarily due to a 30% net volume increase in the soybeans processed at our two crushing plants.

Marketing, General and Administrative. Marketing, general and administrative expenses of $48.3 million for the three months ended November 30, 2005 increased by $3.7 million (8%) compared to the three months ended November 30, 2004, and is reflective of increases in all of our business segments, primarily for higher accruals for incentive programs and pension cost.

Interest. Interest expense of $11.7 million for the three months ended November 30, 2005 increased $1.0 million (9%) compared to the three months ended November 30, 2004. The average short-term interest rate increased 1.96% and the average level of short-term borrowings increased $14.1 million, during the three months ended November 30, 2005 compared to the same period in 2004.

Equity Income from Investments. Equity income from investments of $9.2 million for the three months ended November 30, 2005 changed unfavorably by $7.5 million (45%) compared to the three months ended November 30, 2004. We record equity income or loss from the investments that we own 50% or less of 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 change in equity income from investments was primarily attributable to reduced earnings from investments within our Ag Business and Processing segments of $6.2 million and $1.9 million, respectively, when compared to the prior year three-month period. These reduced equity income and losses from investments were partially offset by improved net earnings within Corporate and Other and our Energy Segment of $0.5 million and $0.1 million, respectively.

Our Ag Business segment generated reduced earnings of $6.2 million from equity investments when compared to the prior year three-month period. Earnings in our equity investment in Agriliance decreased $5.2 million and are primarily attributable to reduced earnings in their retail south operations and reduced margins on their wholesale crop protection products, partially offset by improved crop nutrient earnings. Hurricane Katrina unfavorably affected sales and margins in Agriliance s southern retail region. Crop protection products primarily consist of the wholesale distribution and, to a lesser degree, the blending and packaging of herbicide and pesticide products. Crop protection earnings declined compared to the same period in 2004 as a result of higher costs of inputs, including reduced chemical rebates and changes in accruals of other promotional programs. The prices and margins of these products continue to decline as many come off patent and are replaced by cheaper generic brands. Crop nutrient volumes, which consist primarily of fertilizers and micronutrients, were down 13% over last year, however operating margins continue to improve, and in addition there was a gain on the sale of a crop nutrient facility. The agronomy Canadian joint venture recorded decreased earnings of $1.5 million as compared to the three months ended November 30, 2004. Partially offsetting these decreases were other Ag Business segment joint ventures whose earnings improved $0.5 million compared to the same three-month period in the previous year.

Our Processing segment generated reduced earnings of $1.9 million from equity investments when compared to the prior year three-month period. Ventura Foods, our oilseed-based products and packaged foods joint venture, showed reduced earnings of $1.6 million, primarily due to increased general, selling and interest expenses, due to a recent acquisition. We also recorded reduced earnings of $0.3 million for Horizon Milling, our wheat milling joint venture.

Corporate and Other reflects improved earnings of $0.5 million, when compared to the prior year three-month period, primarily related to Cofina Financial, LLC, a joint venture finance company in which we own a 49% interest, and which began operations in the fourth quarter of fiscal 2005.

Our Energy segment generated improved earnings of $0.1 million, when compared to the prior year three-month period, related to improved margins in an NCRA equity investment.

Loss on Impairment of Investment. As previously discussed, during the first quarter of fiscal 2005 we evaluated the $153.0 million carrying value of our investment in CF. The carrying value of our CF investment was reduced by $35.0 million, resulting in an impairment charge to our first quarter in fiscal 2005. The net effect to first fiscal quarter in 2005 income after taxes was $32.1 million.

Minority Interests. Minority interests of $32.2 million for the three months ended November 30, 2005 increased by $24.0 million compared to the three months ended November 30, 2004. This increase was primarily a result of more profitable operations within our majority-owned subsidiaries compared to the three months ended November 30, 2004. Substantially all minority interests relate to NCRA, an approximately 74.5% owned subsidiary which we consolidate in our Energy segment.

Income Taxes. Income tax expense, excluding discontinued operations, of $20.5 million for the three months ended November 30, 2005 compares with $6.5 million for the three months ended November 30, 2004. The resulting effective tax rates for the three months ended November 30, 2005 and 2004 were 11.7% and 24.3%, respectively. The federal and state statutory rate applied to nonpatronage business activity was 38.9% for the periods ended November 30, 2005 and 2004. The income taxes and effective tax rate vary each period based upon profitability and nonpatronage business activity during each of the comparable periods.

Discontinued Operations. During the year ended August, 31, 2005, we reclassified our Mexican foods operations, previously reported in Corporate and Other, along with gains and losses recognized on sales of assets, and impairments on assets for sale, as discontinued operations that were sold or have met required criteria for such classification. In our consolidated statements of operations, all of our Mexican foods operations have been accounted for as discontinued operations. Accordingly, current and prior operating results have been reclassified to report those operations as discontinued. The gain recorded for the three months ended November 30, 2005 was $0.3 million ($0.2 million, net of taxes) and compares to a net loss of $3.8 million ($2.3 million, net of taxes), respectively. During our first fiscal quarter of 2006, we sold a facility in Newton, North Carolina and recorded a gain of $0.8 million from the sale of the asset.

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Comparison of the Years Ended August 31, 2005 and 2004

General. We recorded income from continuing operations before income taxes of $297.3 million in fiscal 2005 compared to $256.7 million in fiscal 2004, an increase of $40.6 million (16%). These results reflected increased pretax earnings in our Ag Business and Energy segments, partially offset by decreased earnings in our Processing segment and Corporate and Other.

Our Energy segment generated income from continuing operations before income taxes of $185.2 million for the year ended August 31, 2005 compared to $156.4 million in the prior year. This increase in earnings of $28.8 million (18%) is primarily attributable to higher margins on refined fuels, which resulted mainly from limited refining capacity and increased global demand. Earnings on our lubricants operations also improved compared to the previous year. These improvements were partially offset by decreased earnings in our propane and transportation businesses.

Our Ag Business segment generated income from continuing operations before income taxes of $92.1 million for the year ended August 31, 2005 compared to $63.2 million in the prior year, an increase in earnings of $28.9 million (46%). All three operations that comprise this business segment generated improved earnings in fiscal 2005 compared to fiscal 2004 results. Our grain marketing operations improved earnings by $5.8 million in fiscal 2005 compared with fiscal 2004, of which $11.3 million of the increase is attributable to a situation in fiscal 2004 involving export contracts to China. During fiscal 2004, we, along with several other international grain marketing companies, experienced contract issues with Chinese customers for soybeans. Because the market value of soybeans had declined between the date of the contracts and the delivery date, certain Chinese customers indicated their intent of nonperformance on these contracts. At that time, based upon our assessment of the impact of default, we valued those contracts at $18.5 million less than current market value, which was recorded as an addition to cost of goods sold in 2004. Our country operations earnings increased $2.1 million, primarily as a result of improved margins. Strong export demand to Asia favored shuttle train movement to the west coast, and many of our country elevators were positioned to take advantage of that market. Our share of wholesale agronomy earnings generated through our agronomy ownership interests, primarily Agriliance, net of certain allocated internal expenses, increased $11.3 million. Strong grain prices during 2004 encouraged producers to increase planted acres and to purchase agronomy products to optimize yields in 2005.

Also affecting the agronomy business of our Ag Business segment, during the first quarter of fiscal 2005 we evaluated the carrying value of our investment in CF Industries, Inc. (CF), a domestic fertilizer manufacturer in which we held a minority interest. Our carrying value at that time of $153.0 million consisted primarily of non-cash patronage refunds received from CF over the years. Based upon indicative values from potential strategic buyers for the business and through other analyses, we determined at that time that the carrying value of our CF investment should be reduced by $35.0 million, resulting in an impairment charge to our first quarter in fiscal 2005. The net effect to first fiscal quarter in 2005 income after taxes was $32.1 million.

In February 2005, after reviewing indicative values from strategic buyers, the board of directors of CF determined that a greater value could be derived for the business through an initial public offering of stock in the company. The initial public offering was completed in August 2005. Prior to the initial public offering, we held an ownership interest of approximately 20% in CF. Through the initial public offering, we sold approximately 81% of our ownership interest for cash proceeds of approximately $140.4 million. Our book basis in the portion of our ownership interest sold through the initial public offering, after the $35.0 million impairment charge recognized in our first fiscal quarter results, was $95.8 million. As a result, we recognized a pretax gain of $44.6 million on the sale of that ownership interest during the fourth quarter of fiscal 2005. This gain, net of the impairment loss of $35.0 million recognized during the first quarter of fiscal 2005, resulted in a $9.6 million pretax gain recognized during fiscal 2005. The net effect to fiscal 2005 income, after taxes, is $8.8 million.

Our Processing segment generated income from continuing operations before income taxes of $13.2 million for the year ended August 31, 2005 compared to $29.1 million in the prior year, a decrease in earnings of $15.9 million (55%). Oilseed processing earnings decreased $21.7 million, which was primarily the result of lower crushing margins, partially offset by improved oilseed refining margins. The lower crushing margins are due to higher raw material costs and crushing over-capacity in the geographical area around our plants. Higher demand for soybeans in foreign markets has increased the cost of soybeans used in our crushing operations, and lower-cost soybeans from areas less effected by export demand allowed soybean meal to be shipped into our trade area at costs competitive with our own. This basis difference in the price of soybeans in our geographical area compared to other areas of the country also impaired our ability to ship soybean meal to more distant markets with less local crushing capacity, which resulted in poor margins on soybean meal. We believe that this will be a continued problem in the near future, but may be at least partially mitigated by increased exports of soybeans from South America to Asia. Refined soybean oil, which has more of a national market, enjoyed improved margins over those generated in the prior fiscal year. Our share of earnings from Horizon Milling, our wheat milling joint venture, decreased $2.4 million for the year ended August 31, 2005 compared to the prior year. In addition, we recorded a loss of $2.4 million in fiscal 2005 on the disposition of wheat milling equipment at a closed facility. Partially offsetting these decreases in earnings was our share of earnings from Ventura Foods, our packaged foods joint venture, which increased $8.5 million compared to the prior year. Ventura Foods experienced rapidly increasing soybean oil costs in fiscal 2004 which could not be passed on to customers as quickly as the additional costs were incurred. During fiscal 2005, soybean oil costs were less volatile which allowed Ventura Foods to adjust sales prices and even increase market share for several categories of products.

Corporate and Other generated income from continuing operations before income taxes of $6.8 million for the year ended August 31, 2005 compared to $8.0 million in the prior year, a decrease in earnings of $1.2 million (15%). The primary decrease in earnings was in our business solutions operations which reflected decreased earnings of $1.1 million, primarily as a result of reduced hedging and insurance income. Less volatility in grain prices affected hedging commissions and lower insurance premiums upon which we are paid a commission reduced insurance income.

Net Income. Consolidated net income for the year ended August 31, 2005 was $250.0 million compared to $221.3 million for the year ended August 31, 2004, which represents a $28.7 million (13%) increase.

Net Sales. Consolidated net sales of $11.8 billion for the year ended August 31, 2005 compared to $10.8 billion for the year ended August 31, 2004, which represents a $930.6 million (9%) increase.

Our Energy segment net sales, after elimination of intersegment sales, of $5.6 billion increased $1,705.3 million (44%) during the year ended August 31, 2005 compared to the year ended August 31, 2004. During the years ended August 31, 2005 and 2004, our Energy segment recorded sales to our Ag Business segment of $170.6 million and $121.2 million, respectively. The net sales increase of $1,705.3 million is comprised of a net increase of $1,549.8 million related to price appreciation on refined fuels and propane products and $155.5 million related to a net increase in sales volume. Refined fuels net sales increased $1,360.6 million (48%), of which $1,112.5 million was related to a net average selling price increase and $248.1 million was related to increased volumes. The sales price of refined fuels increased $0.43 per gallon (39%) and volumes increased 6% when comparing the year ended August 31, 2005 with the same period a year ago. Higher crude oil costs, strong global demand and limited refining capacity contributed to the increase in refined fuels selling prices. Propane net sales increased by $154.7 million (30%), of which $140.3 million was related to a net average selling price increase and $14.4 million was due to increased volumes compared to the same period in the previous year. Propane prices increased $0.19 per gallon (28%) and sales volume increased 2% in comparison to the same period of the prior year. Propane prices tend to follow the prices of crude oil and natural gas, both of which increased during the year ended August 31, 2005 compared to the same period in 2004.

Our Ag Business segment net sales, after elimination of intersegment sales, of $5.5 billion decreased $654.3 million (11%) during the year ended August 31, 2005 compared to the year ended August 31, 2004. Grain net sales in our Ag

Business segment totaled $4,613.6 million and $5,346.9 million during the years ended August 31, 2005 and 2004, respectively. The grain net sales decrease of $733.3 million (14%) is attributable to decreased average selling grain prices of $389.0 million, and $344.3 million was related to decreased volumes during the year ended August 31, 2005 compared to the same period last fiscal year. The average sales price of all grain and oilseed commodities sold reflected a decrease of $0.33 per bushel (7%). Commodity prices in general decreased following a strong fall 2004 harvest that produced good yields throughout most of the United States, with the quality of most grains rated as excellent or good. The large harvest assured domestic end users of grain that there would likely be adequate supply throughout the year, which had the effect of reducing nearby purchases and hence, our sales volume. The average market price per bushel of soybeans, spring wheat and corn were approximately $1.84, $0.50 and $0.70, respectively, less than the prices on those same grains as compared to the year ended August 31, 2004. Volumes decreased 7% during the year ended August 31, 2005 compared with the same period of a year ago. Corn and winter wheat reflect the largest volume decreases compared to the year ended August 31, 2004. It appears there will again be a large harvest in 2005, which is well underway in most of the geographical areas covered by our country elevator system, and in combination with grain still owned by producers from the 2004 harvest, has resulted in low grain prices for fall delivery and a carry market for delivery into the winter months. Our Ag Business segment non-grain net sales of $933.7 million increased by $79.0 million (9%) during the year ended August 31, 2005 compared to the year ended August 31, 2004, primarily the result of increased sales of energy and crop nutrient products, partially offset by decreased feed and processed sunflower sales. The average selling price of energy products increased due to overall market conditions while volumes were fairly consistent to the year ended August 31, 2004.

Our Processing segment net sales, after elimination of intersegment sales, of $609.5 million decreased $120.4 million (17%) during the year ended August 31, 2005 compared to the year ended August 31, 2004. Because our wheat milling and packaged foods operations are operated through non-consolidated joint ventures, sales reported in our Processing segment are entirely from our oilseed processing operations. A lower average sales price reduced processed oilseed sales dollars by $109.2 million, and an 11% increase in volumes partially offset that variance by $31.7 million. Oilseed refining sales decreased $42.9 million (12%), of which $37.6 million was due to lower average sales price and $5.3 million due to a 2% net decrease in sales volume. The average selling price of processed oilseed decreased $68 per ton and the average selling price of refined oilseed products decreased $0.03 per pound compared to the same period of the previous year. These changes in the selling price of products are primarily driven by the price of soybeans. In 2004, the U.S. experienced a short soybean crop and strong export demand. That combination drove soybean prices to near record high levels. Soybean prices throughout most of fiscal 2005 were at more normal levels.

Other Revenues. Other revenues of $172.0 million increased $30.8 million (22%) during the year ended August 31, 2005 compared to the year ended August 31, 2004. The majority of our other revenue is generated within our Ag Business segment and Corporate and Other. Our Ag Business segment s country operations elevator and agri-service centers derives other revenues from activities related to production agriculture, which include grain storage, grain cleaning, fertilizer spreading, crop protection spraying and other services of this nature, and our grain marketing operations receives other revenues at our export terminals from activities related to loading vessels. Other revenues within our Ag Business segment increased $27.1 million (29%) primarily due to increased grain storage, grain marketing services and drying revenues, and revenues within Corporate and Other increased $4.0 million (11%) related to additional financing income as compared to the previous year.

Cost of Goods Sold. Cost of goods sold of $11.5 billion increased $919.2 million (9%) during the year ended August 31, 2005 compared to the year ended August 31, 2004.

Our Energy segment cost of goods sold, after elimination of intersegment costs, of $5.3 billion increased by $1,655.7 million (45%) during the year ended August 31, 2005 compared to the same period of the prior year, primarily due to increased average costs of refined fuels and propane products. On a more product-specific basis, the average cost of refined fuels increased by $0.43 (40%) per gallon and volumes increased 6% compared to the year ended August 31, 2004. We process approximately 55,000 barrels of crude oil per day at our Laurel, Montana refinery and 80,000 barrels of crude oil per day at NCRA s McPherson, Kansas refinery. The average cost increase on refined fuels is reflective of higher input costs at our two crude oil refineries and higher average prices on the refined products that we purchased for resale compared to the year ended August 31, 2004. The average per unit cost of crude oil purchased for the two refineries increased 42% compared to the year ended August 31, 2004. The average cost of propane increased $0.20 (29%) per gallon and volumes increased by 2% compared to the year ended August 31, 2004. The average price of propane increased due to higher procurement costs.

Our Ag Business segment cost of goods sold, after elimination of intersegment costs, of $5.5 billion decreased $638.4 million (10%) during the year ended August 31, 2005 compared to the same period of the prior year. Grain cost of goods sold in our Ag Business segment totaled $4,550.2 million and $5,279.4 million during the years ended August 31, 2005 and 2004, respectively. The cost of grains and oilseed procured through our Ag Business segment decreased $729.2 million (14%) compared to the year ended August 31, 2004, primarily the result of a $0.33 (7%) average cost per bushel decrease and a 7% decrease in volumes as compared to the prior year. Corn and winter wheat reflected the largest volume decreases compared to the year ended August 31, 2004. Commodity prices on soybeans, spring wheat and corn have decreased compared to the high prices that were prevalent during the majority of fiscal 2004. Our Ag Business segment cost of goods sold, excluding the cost of grains procured through this segment, increased during the year ended August 31, 2005 compared to the year ended August 31, 2004, primarily due to energy and crop nutrient products, partially offset by decreased cost of feed and processed sunflower products. The average cost of energy products increased due to overall market condition while volumes stayed fairly consistent to the year ended August 31, 2004.

Our Processing segment cost of goods sold, after elimination of intersegment costs, of $603.9 million decreased $98.1 million (14%) compared to the year ended August 31, 2004, which was primarily due to decreased input costs of soybeans processed at our two crushing plants.

Marketing, General and Administrative. Marketing, general and administrative expenses of $191.2 million for the year ended August 31, 2005 decreased by $4.4 million (2%) compared to the year ended August 31, 2004. The net decrease of $4.4 million primarily relates to reduced bad debt and technology expenses as compared to the prior year, mostly in our Energy segment.

Gain on Sale of Investments. During the fourth quarter of fiscal 2005, we sold approximately 81% of our investment in CF Industries, Inc. through an initial public offering of our equity in that company. We received cash proceeds of $140.4 million and recorded a gain of $9.6 million, net of an impairment charge of $35.0 million recognized during the first quarter of fiscal 2005. This gain is reflected within the results reported for our Ag Business segment.

During the second quarter of fiscal 2005, we sold stock representing a portion of our investment in a publicly-traded company for cash proceeds of $7.4 million and recorded a gain of $3.4 million.

During the third quarter of fiscal 2004, we recorded a gain of $14.7 million within our Energy segment for the sale of a portion of a petroleum crude oil pipeline held by our 74.5% owned subsidiary, NCRA. NCRA exercised its right of first refusal to purchase a partial interest in this pipeline, and subsequently sold a 50% interest to another third party for cash proceeds of $25.0 million.

Gain on Legal Settlements. Our Ag Business segment received cash of $0.7 million during the year ended August 31, 2004 from the settlement of a class action lawsuit alleging illegal price fixing against various feed vitamin product suppliers.

Interest. Interest expense of $55.1 million for the year ended August 31, 2005 increased by $6.4 million (13%) compared to the year ended August 31, 2004. In September 2004, we increased our long-term debt by entering 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%, for the purpose of financing the final stages of the ultra-low sulfur upgrades at our energy refineries. In addition to the increased interest related to the private placement, the average short-term interest rate increased 1.50%. Partially offsetting the increases in interest expense was the average level of short-term borrowings, which decreased $211.7 million during fiscal 2005 compared to the year ended August 31, 2004. For the fiscal years ended August 31, 2005 and 2004, we capitalized interest of $6.8 million and $2.8 million, respectively, related to capitalized construction projects.

Equity Income from Investments. Equity income from investments of $95.7 million for the year ended August 31, 2005 favorably changed by $16.7 million (21%) compared to the year ended August 31, 2004. We record equity income or loss from the investments in which we have an ownership interest of 50% or less and have significant influence, but not control, for our proportionate share of income or loss reported by the entity, without consolidating the revenues and expenses of the entity in our Consolidated Statements of Operations. The net increase in equity income from investments was attributable to improved earnings from investments within our Ag Business, Processing and Energy segments and Corporate and Other of $8.0 million, $6.2 million, $2.1 million and $0.4 million, respectively.

Our Ag Business segment generated improved earnings of $8.0 million from equity investments. Our investments in a Canadian joint venture contributed improved earnings primarily from their joint ventures of $2.9 million. Our share of equity investment in Agriliance increased $3.8 million and primarily relates to improved margins in crop protection products, partially offset by reduced margins in retail operations. Our equity income from our investment in TEMCO, a joint venture, which exports primarily corn and soybeans contributed improved earnings of $0.3 million, and our wheat exporting investment in United Harvest contributed improved earnings of $0.3 million. Our country operations also had increases in equity investments of $0.6 million.

Our Processing segment generated improved earnings of $6.2 million from equity investments. Ventura Foods, our vegetable oil-based products and packaged foods joint venture, recorded increased earnings of $8.5 million, partially offset by Horizon Milling, our wheat milling joint venture, which recorded decreased earnings of $2.4 million compared to the same period in the previous year. During fiscal 2004, Ventura Foods faced rapidly increasing costs for soybean oil which it was unable to pass through in the form of price increases to customers. This year, soybean prices were far less volatile so a more normal gross margin was maintained. Horizon Milling s results are primarily affected by U.S. dietary habits. Although the preference for a low carbohydrate diet appears to have reached the bottom of its cycle, milling capacity which had been idled over the past few years because of lack of demand for flour products can easily be put back in production as consumption of flour products increases, which will continue to depress gross margins in the milling industry.

Our Energy segment generated improved earnings of $2.1 million related to improved margins in an NCRA equity investment, and Corporate and Other generated improved earnings of $0.4 million from equity investments as compared to the year ended August 31, 2004.

Minority Interests. Minority interests of $47.7 million for the year ended August 31, 2005 increased by $13.9 million (41%) compared to the year ended August 31, 2004. This increase was primarily a result of more profitable operations within our majority-owned subsidiaries compared to the prior year. Substantially all minority interests relate to NCRA, an approximately 74.5% owned subsidiary, which we consolidate in our Energy segment.

Income Taxes. Income tax expense, excluding discontinued operations, of $30.4 million for the year ended August 31, 2005 compares with $29.5 million for the year ended August 31, 2004, resulting in effective tax rates of 10.2% and 11.5%, respectively. The federal and state statutory rate applied to nonpatronage business activity was 38.9% for the years ended August 31, 2005 and 2004. The income taxes and effective tax rate vary each year based upon profitability and nonpatronage business activity during each of the comparable years.

Discontinued Operations. During the year ended August, 31, 2005, we reclassified our Mexican foods operations, previously reported in Corporate and Other, along with gains and losses recognized on sales of assets, and impairments on assets for sale, as discontinued operations that were sold or have met required criteria for such classification. In our consolidated statements of operations, all of our Mexican foods operations have been accounted for as discontinued operations. Accordingly, current and prior operating results have been reclassified to report those operations as discontinued. The loss amounts recorded for the years ended August 31, 2005 and 2004 were $27.5 million ($16.8 million, net of taxes) and $9.7 million ($5.9 million, net of taxes), respectively.

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Comparison of the Years Ended August 31, 2004 and 2003

General. We recorded income from continuing operations before income taxes of $256.7 million in fiscal 2004 compared to $145.1 million in fiscal 2003, an increase of $111.6 million (77%). These results reflected increased pretax earnings in each of our business segments and Corporate and Other.

Our Energy segment generated income from continuing operations before income taxes of $156.4 million for the year ended August 31, 2004 compared with $83.5 million in the prior year. This increase in earnings of $72.9 million (87%) is primarily attributable to higher margins on refined fuels products, which resulted mainly from increased global demand. Earnings on our lubricants, propane and transportation operations also improved compared to the previous year.

Our Ag Business segment generated income from continuing operations before income taxes of $63.2 million for the year ended August 31, 2004 compared to $43.9 million in the prior year. This increase in earnings of $19.3 million (44%) is primarily attributable to the acquisition of Farmland s interests in Agriliance in April 2004, as previously discussed, which represents $7.3 million of the increase in earnings, and improved Agriliance earnings from operations of $6.7 million. Our country operations business generated pretax earnings of $27.2 million for the year ended August 31, 2004 compared to $26.6 million in the prior year. This increase in earnings of $0.6 million (2%) resulted primarily from strong operating margins in energy, seed, agronomy and processed sunflower products. During 2004 and 2003, our country operations business recorded $0.7 million and $10.9 million of earnings, respectively, from the cash settlements of a class action lawsuit alleging illegal price fixing against various feed vitamin product suppliers.

Our grain marketing operations generated pretax earnings of $8.5 million for the year ended August 31, 2004 compared to $3.7 million in the prior year. This increase in earnings of $4.8 million (127%) includes improved earnings in our two exporting joint ventures, TEMCO and United Harvest. Short supplies that created strong demands for wheat, corn and soybeans along with favorable ocean freight spreads from the Pacific Northwest to Asia contributed to the improved earnings for these two joint ventures. During fiscal 2004, we, along with several other international grain marketing companies, experienced contract issues with Chinese customers for soybeans. Because the market value of soybeans had declined between the date of the contracts and the delivery date, certain Chinese customers indicated their intent of nonperformance on these contracts. At that time, based upon our assessment of the impact of default, we valued those contracts at $18.5 million less than current market value, which was recorded as an addition to cost of goods sold in 2004. We had established receivables for the expected proceeds, which approximated the valuation placed on the contracts on May 31, 2004, and therefore, there was no additional impact on our net income during the fourth quarter of 2004.

Our Processing segment generated income from continuing operations before income taxes of $29.1 million for the year ended August 31, 2004 compared to $12.7 million in the prior year. This increase in earnings of $16.4 million (129%) was primarily the result of improved crushing and refining margins within our oilseed processing operations, accounting for $14.0 million of the improvement in earnings. A poor 2003 harvest of soybeans in the U.S. because of weather conditions coupled with strong export demand put soybeans in short supply, which widened soybean meal and oil margins throughout most of fiscal 2004. Earnings from our wheat milling joint venture, Horizon Milling, improved $3.0 million in fiscal 2004, partially offset by an impairment of $1.0 million related to idle equipment at a closed facility. Our share of earnings from Ventura Foods, our packaged foods joint venture, increased $0.9 million compared to the prior year.

Net Income. Consolidated net income for the year ended August 31, 2004 was $221.3 million compared to $123.8 million for the year ended August 31, 2003, which represents a $97.5 million (79%) increase.

Net Sales. Consolidated net sales of $10.8 billion for the year ended August 31, 2004 compared to $9.2 billion for the year ended August 31, 2003, represents a $1,641.9 million (18%) increase.

Our Energy segment net sales, after elimination of intersegment sales, of $3.9 billion increased $353.2 million (10%) during the year ended August 31, 2004 compared to the year ended August 31, 2003. During the years ended August 31, 2004 and 2003, our Energy segment recorded sales to our Ag Business segment of $121.2 million and $94.2 million, respectively. The net sales increase of $353.2 million is comprised of an increase of $578.9 million related to price appreciation and a decrease in sales of $225.7 million because of lower sales volume, primary on refined fuels and propane products. On a more product-specific basis, we own and operate two crude oil refineries from which we produce approximately 60% of the refined fuel products that we sell, and the balance is purchased from other U.S. refiners and distributors. Refined fuels net sales increased $317.9 million (13%), of which $444.4 million was related to a net average price increase, partially offset by a decrease of $126.5 million related to reduced volumes. Our price of refined fuels increased $0.17 per gallon (18%) and volumes decreased 4%, when comparing the year ended August 31, 2004 with the same period a year ago. Higher crude oil costs and global supply and demand forces contributed to the increase in our refined fuels selling prices. Our volume of refined fuels sales decreased primarily because of the non-renewal of a supply agreement with another refiner. Propane net sales increased by $33.1 million (7%), of which $84.6 million was related to a net average selling price increase, partially offset by a decrease of $51.5 million due to reduced volumes compared to the previous year. Our propane prices increased $0.10 per gallon (18%) and sales volume decreased 9% in comparison to the same period the prior year. Higher propane prices reflect lower industry stocks during the later part of 2003 as the result of a cold winter earlier in the calendar year. The lower sales volume for our propane during the year ended August 31, 2004 is primarily reflective of a dry autumn which offered minimal opportunity for sales related to crop drying and a relatively warm early winter, which reduced demand for home heating, as compared to the same period in 2003.

Our Ag Business segment net sales, after elimination of intersegment sales, of $6.2 billion increased $975.9 million (19%) during the year ended August 31, 2004 compared to the year ended August 31, 2003. Grain net sales in our Ag Business segment totaled $5,346.9 million and $4,479.8 million during the years ended August 31, 2004 and 2003, respectively. The grain net sales increase of $867.1 million (19%) is attributable to increased average selling grain prices of $484.5 million, and $382.6 million was related to increased volumes during the year ended August 31, 2004 compared to the same period the previous fiscal year. The average sales price of all grain and oilseed commodities sold reflected an increase of $0.44 per bushel (11%) and our volumes increased 8% during the year ended August 31, 2004 compared with the same period of a year ago. Commodity prices in general increased due to a poor 2003 harvest in the U.S. because of weather conditions which caused a shortage of grains and oilseeds. The average market price per bushel of soybeans, corn and spring wheat was $2.34, $0.37 and $0.25 greater than the prices on those same grains as compared to the year ended August 31, 2003. Wheat, corn and soybeans reflected our largest volume increases. Demand from Chinese customers increased international exports of soybeans. Our Ag Business segment non-grain net sales of $854.6 million increased by $108.9 million (15%) during the year ended August 31, 2004 compared to the year ended August 31, 2003, primarily the result of increased average selling prices on energy, crop nutrients, seed and processed sunflower products. In addition, our country operations volumes are up due to acquisitions.

Our Processing segment net sales, after elimination of intersegment sales, of $729.9 million increased $312.8 million (75%) during the year ended August 31, 2004 compared to the year ended August 31, 2003. Sales in processing are entirely our oilseed sales, of which $159.6 million of the increase was due to price appreciation, and $153.2 million was due to higher sales volumes. The average selling price of processed and refined oilseed products increased $77 per ton and $0.08 per pound, respectively, compared to the previous year. The volume increase is primarily due to the additional volumes from our crushing plant in Fairmont, Minnesota which began operations during the first quarter of fiscal year 2004. The price increase is primarily related to overall global market conditions for soybean oil.

Other Revenues. Other revenues of $141.2 million increased $18.7 million (15%) during the year ended August 31, 2004 compared to the year ended August 31, 2003. The majority of our other revenue is generated within our Ag Business segment and Corporate and Other. Our Ag Business segment s country operations elevator and agri-service centers derives other revenues from activities related to production agriculture which include grain storage, grain cleaning, fertilizer spreading, crop protection spraying and other services of this nature, and our grain marketing operations receives other revenues at our export terminals from activities related to loading vessels. Other revenues within our Ag Business segment increased $7.4 million (9%), which includes grain marketing services revenues and delivery income increases of $4.5 million compared to the year

ended August 31, 2003. Our Energy segment received $2.1 million of sulfur allotment recovery for the sale of a portion of its sulfur credits. In addition, we received patronage refunds of $7.7 million during the year ended August 31, 2004, an increase of $4.5 million (137%) compared to the previous year. The increase in patronage refunds is primarily the result of a patronage distribution in one of our cooperative investments, which was related to gains on legal settlements and on the sale of a warehouse facility. Other revenues within Corporate and Other improved $7.4 million (25%) related to increased revenue from commodity hedging and insurance services as compared to the previous year.

Cost of Goods Sold. Cost of goods sold of $10.5 billion increased $1,544.5 million (17%) during the year ended August 31, 2004 compared to the year ended August 31, 2003.

Our Energy segment cost of goods sold, after elimination of intersegment costs, of $3.8 billion increased by $286.5 million (8%) during the year ended August 31, 2004 compared to the same period of the prior year, primarily due to increased average costs, which was partially offset by reduced volumes. On a more product-specific basis, the average cost of refined fuels increased by $0.16 (17%) per gallon, which was partially offset by a 4% decrease in volumes compared to the year ended August 31, 2003. The average cost increase on refined fuels is reflective of higher input costs at our two crude oil refineries and higher average prices on the refined products that are purchased for resale compared to the year ended August 31, 2003. The average per unit cost of crude oil purchased for our two refineries increased 15% compared to the previous fiscal year. The average cost of propane increased $0.11 (19%) per gallon, which was partially offset by a 9% decrease in volumes compared to the year ended August 31, 2003. Propane volumes were reduced due to a dry autumn and relatively warm early winter, which was partially offset by an average cost increase due to higher procurement costs compared to the year ended August 31, 2003.

Our Ag Business segment cost of goods sold, after elimination of intersegment costs, of $6.2 billion increased $963.1 million (18%) during the year ended August 31, 2004 compared to the same period of the prior year. Grain cost of goods sold in our Ag Business segment totaled $5,279.4 million and $4,421.8 million during the years ended August 31, 2004 and 2003, respectively. The cost of grains and oilseed procured through our Ag Business segment increased $857.6 million (19%) compared to the year ended August 31, 2003, primarily the result of a $0.43 (11%) average cost per bushel increase and an 8% increase in volumes compared to the prior year. In addition to higher commodity prices, increased shipping costs and the $18.5 million net effect of the Chinese contract defaults, previously discussed, contributed to the net increase in cost of goods sold. Our Ag Business segment cost of goods sold, excluding the cost of grains procured through this segment, increased $105.5 million (13%) during the year ended August 31, 2004 compared to the year ended August 31, 2003, primarily due to an increased average cost per unit on energy products and crop nutrients, and additional volumes from acquisitions.

Our Processing segment cost of goods sold, after elimination of intersegment costs, of $702.0 million increased by $294.9 million (72%) compared to the year ended August 31, 2003, which was primarily due to additional volumes of soybeans processed at our crushing plant in Fairmont, Minnesota and increased cost of raw materials in oilseed processing.

Marketing, General and Administrative. Marketing, general and administrative expenses of $195.6 million for the year ended August 31, 2004 increased by $26.3 million (16%) compared to the year ended August 31, 2003. The net increase includes additional expenses due to increased retiree benefit expenses of $4.9 million, higher healthcare costs and other employee related benefits, and $5.4 million of additional bad debt expenses in our Ag Business segment and Corporate and Other.

Gain on Sale of Investments. During the year ended August 31, 2004, we recorded a gain of $14.7 million within our Energy segment from the sale of a portion of a petroleum crude oil pipeline investment. NCRA exercised its right of first refusal to purchase a partial interest in the pipeline, and subsequently sold a 50% interest to another third party for proceeds of $25.0 million.

Gain on Legal Settlements. Our Ag Business segment received cash of $0.7 million and $10.9 million during the years ended August 31, 2004 and 2003, respectively, from the settlement of a class action lawsuit alleging illegal price fixing against various feed vitamin product suppliers.

Interest. Interest expense of $48.7 million for the year ended August 31, 2004 increased by $2.5 million (5%) compared to the year ended August 31, 2003. Our average level of short-term borrowings increased by $93.2 million primarily due to financing higher working capital needs and was partially offset by an average short-term interest rate decrease of 0.4% during the year ended August 31, 2004 compared to the year ended August 31, 2003. For the fiscal years ended August 31, 2004 and 2003, we capitalized interest of $2.8 million and $3.9 million, respectively, related to capitalized construction projects.

Equity Income from Investments. Equity income from investments of $79.0 million for the year ended August 31, 2004 increased by $31.7 million (67%) compared to the year ended August 31, 2003. The net increase in equity income from investments was attributable to improved earnings from investments within our Ag Business and Processing segments of $27.8 million and $3.9 million, respectively.

Our Ag Business segment generated improved earnings of $27.8 million from equity investments. Our agronomy joint ventures generated increased earnings of $15.0 million. In April 2004, we finalized the purchase of additional ownership in Agriliance so that we now own 50%, which accounted for $7.3 million of the increase. In addition, Agriliance recorded increased earnings from operations, primarily in wholesale crop protection operations which primarily consists of herbicides and pesticides, compared to the same period of a year ago, due to increased market share. However, the price of these products continued to decline as many come off patent and are replaced by cheaper generic brands. Crop nutrient volumes, which primarily consist of fertilizers and micronutrients, were down 20% over the previous year, which partially reduced Agriliance earnings. Consistently high and volatile domestic prices for crop nutrient products have created a competitive, global supply environment. Our grain marketing operations recorded increased earnings of $13.1 million, primarily in two exporting joint ventures, due to increased export demand and favorable ocean freight spreads from the Pacific Northwest, where the exporting facilities are located, to the Pacific Rim. These factors contributed to a $6.8 million increase in equity income from our investment in TEMCO, a joint venture which exports primarily corn and soybeans. Similar conditions contributed to a $5.2 million improvement in equity income from our wheat exporting investment in United Harvest.

Our Processing segment showed increased earnings of $3.9 million, of which $3.0 million was from Horizon Milling, our wheat milling joint venture, due to increased operating efficiencies and demand growth for whole-grain wheat products. Ventura Foods, an oilseed based products and packaged foods joint venture, recorded increased earnings of $0.9 million compared to the previous year.

Minority Interests. Minority interests of $33.8 million for the year ended August 31, 2004 increased by $11.9 million (54%) compared to the year ended August 31, 2003. This increase was primarily a result of more profitable operations within our majority-owned subsidiaries compared to the prior year and the minority interest net effect of the gain on the sale of the NCRA investment. Substantially all minority interests relate to NCRA, an approximately 74.5% owned subsidiary, which we consolidate in our Energy segment.

Income Taxes. Income tax expense, excluding discontinued operations, of $29.5 million for the year ended August 31, 2004 compares with $16.0 million for the year ended August 31, 2003, resulting in effective tax rates of 11.5% and 11.0%, respectively. The federal and state statutory rate applied to nonpatronage business activity was 38.9% for the years ended August 31, 2004 and 2003. The income taxes and effective tax rate vary each year based upon profitability and nonpatronage business activity during each of the comparable years.

Discontinued Operations. During the year ended August, 31, 2005, we reclassified our Mexican foods operations, previously reported in Corporate and Other, along with gains and losses recognized on sales of assets, and impairments on assets for sale, as discontinued operations that were sold or have met required criteria for such classification. In our consolidated statements of operations, all of our Mexican foods operations have been accounted for as discontinued operations. Accordingly, current and prior operating results have been reclassified to report those operations as discontinued. The loss amounts recorded for the years ended August 31, 2004 and 2003 were $9.7 million ($5.9 million, net of taxes) and $8.6 million ($5.2 million, net of taxes), respectively.

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Liquidity and Capital Resources

On November 30, 2005, we had working capital, defined as current assets less current liabilities, of $784.2 million, and a current ratio, defined as current assets divided by current liabilities, of 1.5 to 1.0 compared to working capital of $758.7 million, and a current ratio of 1.4 to 1.0 on August 31, 2005. On November 30, 2004, we had working capital of $616.9 million, and a current ratio of 1.4 to 1.0 compared to working capital of $493.4 million, and a current ratio of 1.3 to 1.0 on August 31, 2004. The increase in working capital between August 31, 2004 and November 30, 2004 is primarily due to earnings and the addition of $125.0 million in long-term debt during this period. During fiscal 2005, our Board of Directors approved the installation of a coker unit at our Laurel, Montana refinery, along with other refinery improvements, which will allow us to extract a greater volume of high value gasoline and diesel fuel from a barrel of crude oil and less relatively low value asphalt. The total cost for this project is expected to be approximately $325.0 million, with completion planned for fiscal year 2008. We anticipate that working capital will be drawn down to a level that is more consistent with prior years levels through capital expenditures, primarily the coker unit project at our Laurel, Montana refinery, as described below in Cash Flows from Investing Activities .

During May 2005, we renewed and expanded our committed lines of revolving credit which are used primarily to finance inventories and receivables. The previously established credit lines consisted of a $750 million 364-day revolver and a $150 million three-year revolver. The current committed credit facilities consist of a $700 million 364-day revolver and $300 million five-year revolver. These credit facilities are established with a syndicate of domestic and international banks, and the inventories and receivables financed with these loans are highly liquid. The terms of the current credit facilities are the same as the terms for the credit facilities they replaced in all material respects, except interest rate spreads over the LIBOR rate were reduced under the current credit facilities. On August 31, 2005, we had $60.0 million outstanding on these lines of credit compared with $115.0 million on August 31, 2004. On November 30, 2005, we had $20.0 million outstanding on these lines of credit compared with no dollars outstanding on November 30, 2004. In September 2004, we borrowed $125.0 million from a group of insurance companies on a long-term basis and used the proceeds to pay down the revolving lines of credit. We believe that we have adequate liquidity to cover any increase in net operating assets and liabilities in the foreseeable future.

Cash Flows from Operations

Cash flows from operations are generally affected by commodity prices. 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 under Risk Factors on page 6, and may affect net operating assets and liabilities, and liquidity.

Cash flows provided by operating activities were $160.2 million for the three months ended November 30, 2005 compared to $78.4 million for the three months ended November 30, 2004. Volatility in cash flows from operations for these periods is primarily the result of greater net income during the current three-month period compared to the prior year, slightly offset by an increase in net operating assets and liabilities in the current three-month period.

Our operating activities provided net cash of $160.2 million during the three months ended November 30, 2005. Net income of $154.2 million and net non-cash expenses of $88.8 million were partially offset by an increase in net operating assets and liabilities of $82.8 million. The primary components of net non-cash expenses included depreciation and amortization of $28.0 million, minority interests of $32.2 million and deferred tax expense of $37.5 million, partially offset by income from equity investments of $9.2 million. The increase in net operating assets and liabilities was comprised of several components. One of the primary components included an increase in grain inventories. While there were only slight changes (5% to 6%) in the market prices of our three primary grain commodities (spring wheat, soybeans and corn) on November 30, 2005 compared to August 31, 2005, our grain inventory quantities increased 26.6 million bushels (29%) due to harvest. Another primary factor affecting operating assets and liabilities was a decrease in crude oil prices on

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November 30, 2005 compared to August 31, 2005, which had offsetting impacts of decreasing receivables, derivative liabilities and accounts payable in our Energy segment. In general, crude oil prices decreased $11.62 per barrel (17%) on November 30, 2005 compared to August 31, 2005.

Our operating activities provided net cash of $78.4 million during the three months ended November 30, 2004. Net income of $18.0 million, net non-cash expenses of $52.5 million and a decrease in net operating assets and liabilities of $7.9 million provided this net cash from operating activities. The primary components of net non-cash expenses included depreciation and amortization of $27.1 million, loss on impairment of an investment of $35.0 million and minority interests of $8.2 million, partially offset by income from equity investments of $16.7 million. The decrease in net operating assets and liabilities was caused primarily by decreases in the market prices of our three primary grain commodities, partially offset by an increase in grain inventory quantities due to harvest. On November 30, 2004, the market price per bushel of spring wheat, soybeans and corn decreased by $0.21 (6%), $0.93 (15%) and $0.35 (15%), respectively when compared to their respective values on August 31, 2004. Grain prices are influenced significantly by global projections of grain stocks available until the next harvest.

Cash flows provided by operating activities were $209.2 million, $333.3 million and $216.5 million for the years ended August 31, 2005, 2004 and 2003, respectively. Volatility in cash flows from operations between fiscal 2005 and 2004 is primarily the result of an increase in net operating assets and liabilities as a result of increased crude and refined oil prices and an increase in grain and oilseed inventory quantities. Volatility in cash flows from operations between fiscal 2004 and 2003 is primarily the result of increased earnings of $97.5 million (79%) during fiscal 2004 compared to 2003, as well as a decrease in net operating assets and liabilities as a result of decreased grain and oilseed inventory quantities.

Our operating activities provided net cash of $209.2 million during the year ended August 31, 2005. Net income of $250.0 million and net non-cash expenses of $72.5 million were partially offset by an increase in net operating assets and liabilities of $113.3 million. The primary components of net non-cash expenses included depreciation and amortization of $110.3 million, minority interests of $47.7 million and deferred tax expense of $26.4 million, which were partially offset by income from equity investments of $95.7 million, and a pretax gain on the sale of investments of $13.0 million. The increase in net operating assets and liabilities was caused primarily by an increase in crude oil prices of $26.82 per barrel (64%) on August 31, 2005 when compared to August 31, 2004, and an increase in grain and oilseed inventories in our Ag Business segment of 36.1 million bushels (64%) when comparing those same fiscal year-end dates.

Our operating activities provided net cash of $333.3 million during the year ended August 31, 2004. Net income of $221.3 million, net non-cash expenses of $54.0 million, and a decrease in net operating assets and liabilities of $58.0 million, provided this net cash from operating activities. The primary components of net non-cash expenses included depreciation and amortization of $108.4 million and minority interests of $33.8 million, which were partially offset by income from equity investments of $79.0 million and a pretax gain on the sale of an investment of $14.7 million. The decrease in net operating assets and liabilities was caused primarily by a decrease in grain and oilseed inventories of 20.4 million bushels (26%) in our Ag Business segment.

Our operating activities provided net cash of $216.5 million during the year ended August 31, 2003. Net income of $123.8 million and net non-cash expenses of $98.0 million were partially offset by a small increase in net operating assets and liabilities of $5.3 million. The primary components of net non-cash expenses included depreciation and amortization of $111.3 million and minority interests of $22.0 million, which were partially offset by income from equity investments of $47.3 million. Grain and oilseed prices on August 31, 2003 remained at the approximate levels prevailing on August 31, 2002, as market conditions were similar at the end of both fiscal years. Consequently, net operating assets and liabilities at August 31, 2003 changed only slightly compared with those at the prior year-end.

We expect our net operating assets and liabilities to increase through our second quarter of the current fiscal year when compared to the levels on November 30, 2005. We expect to increase crop nutrient and crop protection product inventories and prepayments to suppliers of these products at our country operations locations during the second fiscal quarter. At the same time, we expect this increase in net operating assets and liabilities to be partially offset by the collection of prepayments from our own customers for these products. Prepayments are frequently used for agronomy products to assure supply, and at times to guarantee prices. We believe that we have adequate capacity through our committed credit facilities to meet any likely increase in net operating assets and liabilities.

Cash Flows from Investing Activities

For the three months ended November 30, 2005 and 2004, the net cash flows used in our investing activities totaled $94.3 million and $35.8 million, respectively.

The acquisition of property, plant and equipment comprised the primary use of cash totaling $64.5 million and $63.9 million for the three months ended November 30, 2005 and 2004, respectively. Capital expenditures primarily related to the U.S. Environmental Protection Agency (EPA) low sulfur fuel regulations required by 2006 are essentially complete at our Laurel, Montana refinery and at NCRA s McPherson, Kansas refinery. Total expenditures for these projects as of November 30, 2005 include $86.8 million that has been spent at our Laurel refinery and $292.2 million that has been spent by NCRA at the McPherson refinery. Expenditures for the projects during the three months ended November 30, 2005, were $33.7 million in total, compared to $42.6 million during the same period a year ago.

For the year ending August 31, 2006, we expect to spend approximately $243.3 million for the acquisition of property, plant and equipment. Included in our projected capital spending through fiscal year 2008 is the installation of a coker unit at our Laurel, Montana refinery, along with other refinery improvements, which will allow us to extract a greater volume of high value gasoline and diesel fuel from a barrel of crude oil and less relatively low value asphalt. The total cost for this project is expected to be approximately $325 million, with completion planned for fiscal 2008. We anticipate funding the project with a combination of cash flows from operations and debt proceeds.

In October 2003, we and NCRA reached agreements with the EPA and the State of Montana s Department of Environmental Quality and the State of Kansas Department of Health and Environment regarding the terms of settlements with respect to reducing air emissions at our Laurel, Montana and NCRA s McPherson, Kansas refineries. These settlements are part of a series of similar settlements that the EPA has negotiated with major refiners under the EPA s Petroleum Refinery Initiative. The settlements, which resulted from nearly three years of discussions, take the form of consent decrees filed with the U.S. District Court for the District of Montana (Billings Division) and the U.S. District Court for the District of Kansas. Each consent decree details specific capital improvements, supplemental environmental projects and operational changes that we and NCRA have agreed to implement at the relevant refinery over the next several years. The consent decrees also require us, and NCRA, to pay approximately $0.5 million in aggregate civil cash penalties. We anticipate that the aggregate capital expenditures for us and NCRA related to these settlements will total approximately $20.0 million to $25.0 million over the next six years. We do not believe that the settlements will have a material adverse effect on us, or NCRA.

Investments made during the three months ended November 30, 2005 and 2004 totaled $37.0 million and $46 thousand, respectively. During the three months ended November 30, 2005, we made a $35.0 million investment in US BioEnergy Corporation for an approximate 28% interest in the company. US BioEnergy Corporation is an ethanol production and marketing firm which currently has two ethanol plants under construction in Albert City, Iowa and Lake Odessa, Michigan.

NCRA distributions to minority owners for the three months ended November 30, 2005 and 2004 were $11.7 million and $3.1 million, respectively.

Partially offsetting cash outlays in investing activities were proceeds from the disposition of property, plant and equipment of $5.4 million and $5.9 million for the three months ended November 30, 2005 and 2004, respectively. Also partially offsetting cash usages were distributions received from joint ventures and other investments totaling $4.7 million and $23.5 million for the three months ended November 30, 2005 and 2004, respectively, as well as an increase in cash flows of $8.8 million and $0.6 million related to the changes in notes receivable for the same respective periods. The changes in notes receivable are primarily from related parties notes receivable at NCRA with its minority owners.

For the years ended August 31, 2005, 2004 and 2003, the net cash flows used in our investing activities totaled $57.0 million, $181.3 million and $173.3 million, respectively.

The acquisition of property, plant and equipment comprised the primary use of cash totaling $257.5 million, $245.1 million and $175.7 million for the years ended August 31, 2005, 2004 and 2003, respectively. These acquisitions of property, plant and equipment included $8.5 million acquired as part of a business acquisition during the year ended August 31, 2003. Capital expenditures primarily related to the U.S. Environmental Protection Agency (EPA) low sulfur fuel regulations required by 2006 that were made during the years ended August 31, 2005, 2004 and 2003 were $165.1 million, $135.0 million and $45.2 million, respectively. Capital expenditures during the year ended August 31, 2003 included $46.0 million for the construction of our oilseed processing facility in Fairmont, Minnesota. Our Fairmont facility was essentially complete and operational during the first quarter of fiscal 2004. Also during the first quarter of fiscal 2004, we entered into a sale-leaseback transaction for the Fairmont facility equipment and received cash proceeds of $19.8 million from the sale.

Investments made during the years ended August 31, 2005, 2004 and 2003 totaled $25.9 million, $49.8 million and $43.5 million, respectively. During the year ended August 31, 2005, we contributed $19.6 million in cash (plus an additional $18.5 million in net assets, primarily loans) to Cofina for a 49% equity interest. Cofina was formed by us and Cenex Finance Association to provide financing for agricultural cooperatives and businesses, and to producers of agricultural products. During the year ended August 31, 2004, we purchased all of Farmland s interest in Agriliance for a cash payment of $27.5 million, as previously discussed. During the year ended August 31, 2003, we purchased an additional 13.1% economic interest of the crop protection business of Agriliance for cash payment of $34.3 million, as previously discussed. Also during the year ended August 31, 2004, NCRA exercised its right of first refusal to purchase a partial interest in a crude oil pipeline for $16.0 million.

Net working capital acquired in business acquisitions was $13.0 million during the year ended August 31, 2003.

During the years ended August 31, 2005, 2004 and 2003, the changes in notes receivable resulted in decreases in cash flows of $23.8 million, $6.9 million and $6.6 million, respectively, primarily from related party notes receivables at NCRA from its minority owners, Growmark, Inc. and MFA Oil Company.

Distributions to minority owners for the years ended August 31, 2005, 2004 and 2003 were $29.9 million, $15.9 million and $4.4 million, respectively, and were primarily related to NCRA. NCRA s cash distributions to members were lower as a percent of earnings in 2004 and 2003 when compared to other years, due to the funding requirements for environmental capital expenditures previously discussed.

Partially offsetting cash outlays in investing activities were proceeds from the disposition of property, plant and equipment of $21.1 million, $34.5 million and $26.9 million for the years ended August 31, 2005, 2004 and 2003, respectively, and during the year ended August 31, 2005, we sold the majority of our Mexican foods business for proceeds of $38.3 million. The proceeds from the sale of our Mexican foods business includes $13.8 million received for equipment that was used to buy out operating leases during the same period. During the year ended August 31, 2004, proceeds of $19.8 million were from a sale-leaseback transaction for equipment at our oilseed processing facility in Fairmont, Minnesota, as previously discussed. During the year ended August 31, 2003, proceeds were primarily from disposals of propane plants and non-strategic locations in our Energy segment, sales of equipment and non-strategic agri-operations locations in our Ag Business segment, and sales of wheat milling equipment in our Processing segment. Also partially offsetting cash usages were distributions received from joint ventures and investments totaling $78.4 million, $74.6 million and $44.4 million for the years ended August 31, 2005, 2004 and

2003, respectively. During the years ended August 31, 2005 and 2004, we also received proceeds of $147.8 million and $25.0 million, respectively, from the sale of investments. During the year ended August 31, 2005, we received proceeds of $140.4 million from the sale of our CF Industries, Inc. investment ($9.6 million pretax gain) in our Ag

Business segment, and proceeds of $7.4 million ($3.4 million pretax gain) from another investment. During the year ended August 31, 2004, NCRA exercised its right of first refusal to purchase a partial interest in a crude oil pipeline as previously discussed, and subsequently sold a 50% interest in the same pipeline to another third party for proceeds of $25.0 million and recorded a pretax gain on the sale of $14.7 million.

Cash Flows from Financing Activities

We finance our working capital needs through short-term lines of credit with a syndicate of domestic and international banks. In May 2005, we renewed and expanded our committed lines of revolving credit. The previously established credit lines consisted of a $750.0 million 364-day revolver and a $150.0 million three-year revolver. The current committed credit facilities consist of a $700.0 million 364-day revolver and a $300.0 million five-year revolver. The terms of the current credit facilities are the same as the terms of the credit facilities they replaced in all material respects, except interest rate spreads over the LIBOR rate are reduced under the current credit facilities. In addition to these lines of credit, we have a two-year revolving credit facility dedicated to NCRA, with a syndication of banks in the amount of $15.0 million committed. In December 2005, the line of credit dedicated to NCRA was renewed for one year with no material changes to the terms of the credit facility. On November 30, 2005, August 31, 2005, November 30, 2004 and August 31, 2004, we had total short-term indebtedness outstanding on these various facilities and other short-term notes payable totaling $21.1 million, $61.1 million, $1.1 million and $116.1 million, respectively. On August 31, 2005, interest rates on these facilities ranged from 3.86% to 3.93%. In September 2004, $125.0 million received from private placement debt proceeds was used to pay down our 364-day credit facility.

In November 2005, we requested amendments to our 364-day and five-year revolving loan credit agreement, dated May 19, 2005, and to our term loan credit agreement, dated June 1, 1998, to allow for the expansion of our investment limit from $110 million to $175 million. We are currently in compliance with this covenant, but requested the amendment to allow for potential investment opportunities in the future. The requested amendments were approved by the respective bank groups.

We finance our long-term capital needs, primarily for the acquisition of property, plant and equipment, with long-term agreements with various insurance companies and banks. In June 1998, we established a long-term credit agreement through cooperative banks. This facility committed $200.0 million of long-term borrowing capacity to us, with repayments through fiscal year 2009. The amount outstanding on this credit facility was $110.7 million, $114.8 million, $127.1 million and $131.2 million on November 30, 2005, August 31, 2005, and August 31, 2004, respectively. Interest rates on November 30, 2005 ranged from 5.16% to 7.13%. Repayments of $4.1 million were made on this facility during each of the three months ended November 30, 2005 and 2004. Repayments of $16.4 million, $6.6 million and $6.6 million were made on this facility during the three years ended August 31, 2005, 2004 and 2003, respectively.

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

In January 2001, we entered into a note purchase and private shelf agreement with Prudential Insurance Company. The long-term note in the amount of $25.0 million has an interest rate of 7.9% and is due in equal annual installments of approximately $3.6 million, in the years 2005 through 2011. A subsequent note for $55.0 million was issued in March 2001, related to the private shelf facility, and has an interest rate of 7.43%. Repayments are due in equal annual installments of approximately $7.9 million, in the years 2005 through 2011. During the three months ended November 30, 2005 and 2004, no repayments were due on these notes. During the year ended August 31, 2005, 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 fiscal years 2012 through 2018.

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In March 2004, we entered into a note purchase and private shelf agreement with Prudential Capital Group. In April 2004, we borrowed $30.0 million under this arrangement. One long-term note in the amount of $15.0 million has an interest rate of 4.08% and is due in full at the end of the nine-year term in 2010. Another long-term note in the amount of $15.0 million has an interest rate of 4.39% and is due in full at the end of the seven-year term in 2011.

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

Through NCRA, we had revolving term loans outstanding of $8.3 million, $9.0 million, $11.3 million and $12.0 million for the periods ended November 30, 2005, August 31, 2005, November 30, 2004 and August 31, 2004, respectively. Interest rates on November 30, 2005 ranged from 6.48% to 6.99%. Repayments of $0.8 million were made during each of the three months ended November 30, 2005 and 2004. Repayments of $3.0 million were made during each of the three years ended August 31, 2005, 2004 and 2003.

On November 30, 2005, we had total long-term debt outstanding of $766.3 million, of which $118.5 million was bank financing, $623.6 million was private placement debt and $24.2 million was industrial development revenue bonds and other notes and contracts payable. On November 30, 2004, we had total long-term debt outstanding of $802.5 million.

On August 31, 2005, we had total long-term debt outstanding of $773.1 million, of which $133.3 million was bank financing, $623.6 million was private placement debt and $16.2 million was industrial development revenue bonds and other notes and contracts payable. On August 31, 2004, we had long-term debt outstanding of $683.8 million. Our long-term debt is unsecured except for other notes and contracts in the amount of $9.3 million as of November 30, 2005; however, restrictive covenants under various agreements have requirements for maintenance of minimum working capital levels and other financial ratios. We were in compliance with all debt covenants and restrictions as of November 30, 2005. The aggregate amount of long-term debt payable as of August 31, 2005 was as follows (dollars in thousands):

2006	$ 35,340
2007	59,856
2008	98,421
2009	117,285
2010	82,589
Thereafter	379,583
	$ 773,074

During the three months ended November 30, 2005 and 2004, we borrowed on a long-term basis no dollars and $125.0 million, respectively, and during the same periods repaid long-term debt of $6.8 million and $6.5 million, respectively.

During the years ended August 31, 2005, 2004 and 2003, we borrowed on a long-term basis $125.0 million, $35.5 million and $175.0 million, respectively, and during the same periods repaid long-term debt of $36.0 million, $15.3 million and $89.5 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 capital equity certificates. The patronage earnings from the fiscal year ended August 31, 2004 were primarily distributed during the second quarter of the year ended August 31, 2005. The cash portion of this distribution deemed by the Board of Directors to be 30% was $51.6 million. During the years ended August 31, 2004 and 2003, we distributed cash patronage of $28.7 million and $26.5 million, respectively.

Cash patronage for the year ended August 31, 2005, deemed by the Board of Directors to be 30% and to be distributed in fiscal year 2006, is expected to be approximately $60.9 million and is classified as a current liability on the November 30, 2005 and August 31, 2005 consolidated balance sheets.

Effective September 1, 2004, redemptions of capital equity certificates approved by the Board of Directors are divided into two pools, one for non-individuals (primarily member cooperatives) who participate in an annual pro-rata program for equities older than 10 years, and another for individual members who are eligible for equity redemptions at age 72 or upon death. The amount that each non-individual member receives under the pro-rata program in any year is determined by multiplying the dollars available for pro-rata redemptions that year as determined by the Board of Directors, by a fraction, the numerator of which is the amount of patronage certificates older than 10 years held by that member, and the denominator of which is the sum of the patronage certificates older than 10 years held by all eligible non-individual members. For the years ended August 31, 2005, 2004 and 2003, we redeemed in cash, patronage related equities in accordance with authorization from the Board of Directors in the amounts of $23.7 million, $10.3 million and $31.1 million, respectively. An additional $20.0 million and $13.0 million of capital equity certificates were redeemed in fiscal years 2005 and 2004, respectively, by issuance of shares of our 8% Cumulative Redeemable Preferred Stock (New Preferred) pursuant to registration statements on Forms S-2 filed with the Securities and Exchange Commission. The amount of equities redeemed with each share of preferred stock issued was $27.58 and $27.10, which was the closing price per share of the stock on The NASDAQ National Market on January 24, 2005 and March 2, 2004, respectively. On August 31, 2005, we had 4,951,434 shares of the New Preferred outstanding with a total redemption value of approximately $123.8 million, excluding accumulated dividends. The New Preferred is redeemable at our option beginning in 2008.

We expect cash redemptions related to the year ended August 31, 2005, to be distributed in fiscal year 2006. The distribution is expected to be approximately $64.1 million and is classified as a current liability on the August 31, 2005 consolidated balance sheet. We redeemed $6.3 million during the three months ended November 30, 2005, compared to $0.2 million during the three months ended November 30, 2004.

In 2001 and 2002, we issued 9,454,874 shares of 8% Preferred Stock (Old Preferred). In late 2002, we suspended sales of the Old Preferred, and on February 25, 2003 we filed a post-effective amendment to terminate the offering of the Old Preferred shares. In January 2003, the Board of Directors authorized the sale and issuance of up to 3,500,000 shares of 8% Cumulative Redeemable Preferred Stock (New Preferred) at a price of $25.00 per share. We filed a registration statement on Form S-2 with the Securities and Exchange Commission registering 3,000,000 shares of the New Preferred (with an additional over-allotment option of 450,000 shares granted to the underwriters), which was declared effective on January 27, 2003. The shares were subsequently sold for gross proceeds of $86.3 million (3,450,000 shares). The New Preferred is listed on the NASDAQ National Market. Expenses related to the 2003 issuance of the New Preferred were $3.8 million.

On March 5, 2003, the Board of Directors authorized the redemption and conversion of the Old Preferred shares. A redemption notification and a conversion election form were sent to holders of the Old Preferred shares on March 21, 2003 explaining that on April 25, 2003 all shares of the Old Preferred would be redeemed by us for $1.00 per share unless they were converted into shares of our New Preferred. The conversion did not change the base liquidation amount or dividend amount of the Old Preferred, since 25 shares of the Old Preferred converted to 1 share of the New Preferred. The total Old Preferred converted to the New Preferred was 7,452,439 shares, and the balance of the Old Preferred (2,002,435 shares) was redeemed in cash at $1.00 per share.

On November 30, 2005 we had 4,951,434 shares of the New Preferred outstanding with a total redemption value of approximately $123.8 million, excluding accumulated dividends. The New Preferred accumulates dividends at a rate of 8% per year with dividends payable quarterly, and is redeemable at our option beginning in 2008.

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Off Balance Sheet Financing Arrangements

Lease Commitments:

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

Total rental expense for all operating leases, net of rail car mileage credits received from the railroad and sublease income for the years ended August 31, 2005, 2004 and 2003, was $31.0 million, $35.3 million and $31.7 million, respectively.

Minimum future lease payments required under noncancellable operating leases as of November 30, 2005, were as follows:

	Total (Dollars in millions)
2006	$ 28.3
2007	24.0
2008	21.0
2009	12.9
2010	10.8
Thereafter	6.0
Total minimum future lease payments	$ 103.0

Guarantees:

We are a guarantor for lines of credit for related companies of which $49.9 million and $50.1 million was outstanding on November 30, 2005 and August 31, 2005, respectively. Our bank covenants allow maximum guarantees of $150.0 million. In addition, our bank covenants allow for guarantees dedicated solely for NCRA in the amount of $125.0 million. All outstanding loans with respective creditors are current as of November 30, 2005.

Debt:

We have no material off balance sheet debt.

Contractual Obligations

We had certain contractual obligations at August 31, 2005, which require the following payments to be made:

		Payments Due by Period			
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years

	(Dollars in thousands)				
Notes payable(1)	$ 61,147	$ 61,147			
Long-term debt(1)	773,074	35,340	$ 158,277	$ 199,874	$ 379,583
Interest payments(2)	237,246	47,508	84,084	59,405	46,249
Operating leases	103,037	28,312	44,996	23,768	5,961
Purchase obligations(3)	1,759,071	1,479,770	271,203	1,128	6,970
Other liabilities(4)	52,224		33,379	17,439	1,406
Total obligations	$ 2,985,799	$ 1,652,077	$ 591,939	$ 301,614	$ 440,169

(1) Included on our consolidated balance sheet.

(2) Based on interest rates and long-term debt balances as of August 31, 2005.

(3) Purchase obligations are legally binding and enforceable agreements to purchase goods or services that specify all significant terms, including fixed or minimum quantities; fixed, minimum or variable price provisions; and time of the transactions. Of our total purchase obligations, $1,007.1 million is included in accounts payable and accrued expenses on our consolidated balance sheet.

(4) Other liabilities include deferred compensation, deferred income taxes, accrued turnaround and contractual redemptions, and is included on the consolidated balance sheet. Of our total other liabilities on our consolidated balance sheet of $229.3 million at August 31, 2005, the timing of the payments of $177.1 million of such liabilities cannot be determined.

Other than the balance sheet changes in payables and long-term debt, the total obligations have not materially changed during the three months ended November 30, 2005.

Critical Accounting Policies

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

Allowances for Doubtful Accounts

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

Inventory Valuation and Reserves

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

Derivative Financial Instruments

We enter into exchange-traded commodity futures and options contracts to hedge our exposure to price fluctuations on energy, grain and oilseed transactions to the extent considered practicable for minimizing risk. We do not use derivatives for speculative purposes. Futures and options contracts used for hedging are purchased and sold through regulated commodity exchanges. Fluctuations in inventory valuations, however, may not be completely hedged, due in part to the absence of satisfactory hedging facilities for certain commodities and geographical areas and in part to our assessment of our exposure from expected price fluctuations. We also manage our risks by entering into fixed-price purchase contracts with pre-approved producers and establishing appropriate limits for individual suppliers. Fixed-price sales contracts are entered into with customers of acceptable creditworthiness, as internally evaluated. The fair value of futures and options contracts 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.

Pension and Other Postretirement Benefits

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

Deferred Tax Assets

We assess whether a valuation allowance is necessary to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. While we have considered future taxable income as well as other factors in assessing the need for the valuation allowance, in the event that we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to our deferred tax assets would be charged to income in the period such determination was made.

Long-Lived Assets

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

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

Environmental Liabilities

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

Revenue Recognition

We record revenue from grain and oilseed sales after the commodity has been delivered to its destination and final weights, grades and settlement prices have been agreed upon. All other sales are recognized upon transfer of title, which could occur upon either shipment or receipt by the customer, depending upon the transaction. Amounts billed to a customer as part of a sales transaction related to shipping and handling are included in net sales. Service revenues are recorded only after such services have been rendered, and are included in other revenues.

Effect of Inflation and Foreign Currency Transactions