CHS INC
Form 10-K
December 03, 2018
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

þ	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended August 31, 2018
or	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to .

Commission file number: 001-36079

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

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

8% Cumulative Redeemable Preferred Stock	The Nasdaq Stock Market LLC
Class B Cumulative Redeemable Preferred Stock, Series 1	The Nasdaq Stock Market LLC
Class B Reset Rate Cumulative Redeemable Preferred Stock, Series 2	The Nasdaq Stock Market LLC
Class B Reset Rate Cumulative Redeemable Preferred Stock, Series 3	The Nasdaq Stock Market LLC
Class B Cumulative Redeemable Preferred Stock, Series 4	The Nasdaq Stock Market LLC
(Title of Each Class)	(Name of Each Exchange on Which Registered)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES o NO þ

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES o NO þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES þ NO o

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files).
YES þ NO o

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

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ	Smaller reporting company o	Emerging growth company o

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

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

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

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date:

The Registrant has no common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
None.

INDEX

		Page No.
Explanatory Note		
PART I.		
Item 1.	Business	1
Item 1A.	Risk Factors	8
Item 1B.	Unresolved Staff Comments	18
Item 2.	Properties	19
Item 3.	Legal Proceedings	20
Item 4.	Mine Safety Disclosures	20
PART II.		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	21
Item 6.	Selected Financial Data	22
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	51
Item 8.	Financial Statements and Supplementary Data	53
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	53
Item 9A.	Controls and Procedures	54
Item 9B.	Other Information	56
PART III.		
Item 10.	Directors, Executive Officers and Corporate Governance	57
Item 11.	Executive Compensation	63
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	87
Item 13.	Certain Relationships and Related Transactions, and Director Independence	88
Item 14.	Principal Accounting Fees and Services	89
PART IV.		
Item 15.	Exhibits and Financial Statement Schedules	91
Item 16.	Form 10-K Summary	97
SIGNATURES		98

Table of Contents

EXPLANATORY NOTE

General

On October 22, 2018, the Audit Committee of the Board of Directors (the “Audit Committee”) of CHS Inc. (the “Company”, "we", "us" or "our"), after considering the recommendations of management, concluded that our audited consolidated financial statements for the fiscal years ended August 31, 2017, 2016, and 2015, included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2017 (the “2017 Annual Report”), and our unaudited consolidated financial statements for the quarterly periods ended November 30, 2017 and 2016, February 28, 2018 and 2017, and May 31, 2018 and 2017, included in our Quarterly Reports on Form 10-Q for the quarterly periods ended November 30, 2017, February 28, 2018, and May 31, 2018 (the "2018 Quarterly Reports”), should no longer be relied upon due to misstatements that are described in greater detail below, and that we would restate such financial statements to make the necessary accounting corrections.

The Restatement

This Annual Report on Form 10-K for the year ended August 31, 2018, includes audited consolidated financial statements for the years ended August 31, 2018, 2017, and 2016, as well as relevant unaudited interim financial information for the quarterly periods ended November 30, 2017 and 2016, February 28, 2018 and 2017, May 31, 2018 and 2017, and August 31, 2018 and 2017. The consolidated financial statements for the years ended August 31, 2017 and 2016, selected financial data (Item 6. "Selected Financial Data") for the years ended August 31, 2015 and 2014, and relevant unaudited interim financial information for the quarterly periods ended November 30, 2017 and 2016, February 28, 2018 and 2017, May 31, 2018 and 2017, and August 31, 2017, included within this Annual Report on Form 10-K have been restated.

Restatement Background

As described in the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission ("SEC") on October 26, 2018, management of the Company noted potentially excessive valuations in the net derivative asset valuations relating to certain rail freight contracts purchased in connection with our North American grain marketing operations during the preparation of our Annual Report on Form 10-K for the year ended August 31, 2018. Following our identification of these potentially excessive valuations, the Company engaged external counsel, which engaged forensic accountants to work with management of the Company under the oversight of the Audit Committee to conduct an investigation.

The investigation concluded that the misstatements in our consolidated financial statements included in the 2017 Annual Report and 2018 Quarterly Reports were due to intentional misconduct by a former employee in our rail freight trading operations, as well as due to freight contracts not meeting the technical accounting requirements to qualify as derivative financial instruments. The misconduct consisted of the former employee manipulating the mark-to-market valuation of rail cars that were the subject of rail freight purchase contracts and manipulating the quantity of rail cars included in the monthly mark-to-market valuation. In addition, the investigation revealed intentional misstatements were made by the former employee to our independent registered public accounting firm in connection with its audit of our consolidated financial statements for the fiscal year ended August 31, 2017. During the course of, and as a result of, the investigation, we terminated the former employee and have taken additional personnel actions.

Based on the findings described above, we performed additional reviews and analysis, re-performed certain accounting procedures, reviewed our accounting policies and restated certain accounting records for fiscal 2018 and

prior periods. The Audit Committee, management and the Company's legal counsel reported the findings of the investigation to our Board of Directors and to our independent registered public accounting firm, and have discussed the evidence uncovered and conclusions reached in the investigation with the Staff of the Division of Enforcement of the SEC.

As a result of the work performed in relation to the freight misstatement, additional misstatements related to the elimination of intercompany balances were also identified and corrected. Although these intercompany misstatements resulted in a material misstatement of certain financial statement line items, the intercompany misstatements did not result in a material misstatement of income (loss) before income taxes or net income (loss).

Restatement of Previously Reported Consolidated Financial Information

This Annual Report on Form 10-K restates amounts included in the 2017 Annual Report described above, including the audited consolidated financial statements for the years ended August 31, 2017 and 2016. Selected financial information for fiscal years ended August 31, 2015 and 2014, and relevant unaudited interim financial information for the quarterly periods ended November 30, 2017 and 2016, February 28, 2018 and 2017, May 31, 2018 and 2017, and August 31, 2017, have also

Table of Contents

been restated. In addition to the misstatements related to the freight contracts and intercompany eliminations, we made adjustments related to other previously identified misstatements unrelated to the freight derivatives and related misstatements that were not material, individually or in the aggregate, to our consolidated financial statements. These other misstatements relate primarily to certain misclassifications, adjustments to revenues and cost of goods sold, and adjustments to various income tax and indirect tax accounts. The following tables present the summary impacts of the restatement adjustments on our previously reported consolidated capital reserves and total equities at August 31, 2015, and income (loss) before income taxes and net income (loss) for the years ended August 31, 2017 and 2016:

	August 31, 2015	
	Capital Reserves	Total Equities
	(Dollars in thousands)	
As previously reported	$1,604,670	$7,669,411
Cumulative restatement adjustments	(119,237)	(117,972)
As restated	$1,485,433	$7,551,439

	For the Years Ended August 31,	
	2017	2016
	(Dollars in thousands)	
Income (loss) before income taxes - As previously reported	$(54,852)	$419,878
Restatement adjustments	(55,314)	(17,753)
Income (loss) before income taxes - As restated	$(110,166)	$402,125
Net income (loss) - As previously reported	$127,223	$423,969
Restatement adjustments	(56,265)	(40,943)
Net income (loss) - As restated	$70,958	$383,026

For more information regarding the restatement and its impact on our consolidated financial statements, refer to the "Selected Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections included within Item 6 and Item 7, respectively, of this Annual Report on Form 10-K and Note 2, Restatement of Previously Issued Consolidated Financial Statements and Note 18, Quarterly Financial Information (Unaudited) of the Notes to the Consolidated Financial Statements included within this Annual Report on Form 10-K.

Compensation Recovery

In connection with the restatement, Mr. Debertin and certain of our other named executive officers and other current senior executives, voluntarily asked our Board of Directors to reduce their award under our fiscal 2018 annual variable pay plan by an amount equal to the incentive compensation received by each such current senior executive under certain incentive compensation plans with respect to prior fiscal years that was in excess of what would have been earned by such current senior executive after taking into account the restatement of our consolidated financial statements. Our Board of Directors accepted such requests and reduced each affected executive’s earned annual variable pay for fiscal 2018 by the amount of that excess. Additionally, each of our current directors who was serving as a director in fiscal 2016 voluntarily returned an amount previously credited to such director’s retirement plan account under our deferred compensation plan in that fiscal year, equal to the excess of what would have been credited to such director’s account after taking into account the restatement of our consolidated financial statements. For more information regarding these compensation recovery actions and recovery actions regarding former executives and directors, refer to the “Annual Variable Pay”, “Compensation Recovery” and “Director Compensation” subsections included in Item 11 of this Annual Report on Form 10-K.

Control Considerations

In connection with the restatement, management has assessed the effectiveness of our disclosure controls and procedures and has included applicable disclosure in Item 9A of this Annual Report on Form 10-K, "Controls and Procedures." Management identified material weaknesses in our internal control over financial reporting as described under "Management's Report on Internal Control over Financial Reporting" in Item 9A of this Form 10-K, resulting in the conclusion by our Chief Executive Officer and Chief Financial Officer that our disclosure controls and procedures and internal control over financial

reporting were not effective at a reasonable assurance level as of August 31, 2018. Management has taken and is taking additional steps, as described under "Remediation Plan and Status" in Item 9A of this Annual Report on Form 10-K, to remediate the material weaknesses in our internal control over financial reporting.

Table of Contents

PART I.

ITEM 1. BUSINESS

THE COMPANY

CHS Inc. (referred to herein as “CHS,” “we” or “us”) is the nation’s leading integrated agricultural cooperative, providing grain, foods and energy resources to businesses and consumers on a global basis. As a cooperative, we are owned by farmers and ranchers and their member cooperatives (referred to herein as “members”) across the United States. We also have preferred shareholders that own shares of our five series of preferred stock, which are each listed and traded on the Nasdaq Global Select Market. We buy commodities from and provide products and services to individual agricultural producers, local cooperatives and other companies (including our members and other non-member customers), both domestically and internationally. We provide a wide variety of products and services, ranging 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, renewable fuels 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 equity investments and joint ventures is included as a component of our net income using the equity method of accounting. For the year ended August 31, 2018, our total revenues were $32.7 billion and net income attributable to CHS Inc. was $775.9 million.

We have aligned our segments based on an assessment of how our businesses operate and the products and services they sell. Our Energy segment derives its revenues through refining, wholesaling and retailing of petroleum products. Our Ag segment derives its revenues through the origination and marketing of grain, including: service activities conducted at export terminals; through wholesale sales of crop nutrients; from sales of soybean meal, soybean refined oil and soyflour products; through the production and marketing of renewable fuels; and through retail sales of petroleum and agronomy products, processed sunflowers, feed and farm supplies. Our Ag segment also records equity income from our grain export joint venture and other investments. Our Nitrogen Production segment consists solely of our equity method investment in CF Industries Nitrogen, LLC (“CF Nitrogen”). Our other business operations, primarily our financing and hedging businesses, are included in Corporate and Other because of the nature of their products and services, as well as the relative amount of revenues for those businesses. Prior to its sale on May 4, 2018, our insurance business was also included in Corporate and Other. In addition, our non-consolidated wheat milling and food production and distribution joint ventures are included in Corporate and Other.

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

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

Our internet address is www.chsinc.com. The information contained on our website is not part of, and is not incorporated in, this Annual Report on Form 10-K or any other report we file with or furnish to the SEC.

1

Table of Contents

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 fuel and other energy products); the blending, sale and distribution of lubricants; and the wholesale supply of propane and other natural gas liquids. Our Energy segment processes crude oil into refined petroleum products at our refineries in Laurel, Montana and McPherson, Kansas and sells those products under the Cenex® brand to member cooperatives and other independent retailers through a network of nearly 1,500 sites, the majority of which are convenience stores marketing Cenex® branded fuels. For fiscal 2018, our Energy revenues, after elimination of intersegment revenues, were $7.6 billion and were primarily from gasoline and diesel fuel.

Operations

Laurel Refinery. Our Laurel, Montana refinery processes medium and high sulfur crude oil into refined petroleum products that primarily include gasoline, diesel fuel, petroleum coke and asphalt. Our Laurel, Montana refinery sources approximately 93% of its crude oil supply from Canada, with the remaining balance obtained from domestic sources, and we have access to Canadian and northwest Montana crude oil through our wholly-owned Front Range Pipeline, LLC and other common carrier pipelines. Our Laurel, Montana refinery also has access to Wyoming crude oil via common carrier pipelines from the south.

Our Laurel, Montana facility processes approximately 59,000 barrels of crude oil per day to produce refined products that consist of approximately 43% gasoline, 41% diesel fuel and other distillates, 8% asphalt, 7% petroleum coke and 1% other products. Refined fuels produced at our Laurel, Montana refinery are available: via rail cars and via the Yellowstone Pipeline to western Montana terminals and to Spokane, 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, Prosper, and Fargo, North Dakota.

McPherson Refinery.   Our McPherson, Kansas refinery processes approximately 59% low and medium sulfur crude oil and approximately 41% heavy sulfur crude oil into gasoline, diesel fuel and other distillates, propane and other products. The refinery sources its crude oil through its own pipelines as well as common carrier pipelines. The low and medium sulfur crude oil is sourced from Kansas, Colorado, North Dakota, Oklahoma and Texas, and the heavy sulfur crude oil is sourced from Canada and Wyoming.

Our McPherson, Kansas refinery processes approximately 100,000 barrels of crude oil per day to produce refined products that consist of approximately 56% gasoline, 38% diesel fuel and other distillates, 2% propane and 4% other products. These products are either loaded into trucks at the McPherson, Kansas refinery or shipped via common carrier pipelines to other markets.

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

Products and Services

Our Energy segment produces and sells (primarily wholesale) gasoline, diesel fuel, propane, asphalt, lubricants and other related products and also provides transportation services. In addition to selling the products refined at our Laurel, Montana, and McPherson, Kansas refineries, we purchase refined petroleum products from third parties. For

fiscal 2018, we obtained approximately 70% of the refined petroleum products we sold from our Laurel, Montana and McPherson, Kansas refineries, and approximately 30% from third parties.

Sales and Marketing; Customers

We market approximately 80% of our refined fuel products 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® trade name. We sold approximately 1.5 billion gallons of gasoline and approximately 1.7 billion gallons of diesel fuel in fiscal 2018. We also blend, package and wholesale auto and farm machinery lubricants to both members and non-

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

Industry; Competition

The petroleum business is highly cyclical. Demand for crude oil and energy products is driven by the condition of local and worldwide economies, local and regional weather patterns and taxation relative to other energy sources, which can significantly affect the price of refined fuel products. 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 by our agricultural customers is highest and is subject to domestic supply and demand forces. Other energy products, such as propane, may experience higher volumes and profitability during the winter heating and crop drying seasons. 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.

Regulation. Governmental regulations and policies, particularly in the areas of taxation, energy and the environment, have a significant impact on our Energy segment. Our Energy segment's operations are subject to laws and related regulations and rules designed to protect the environment that are administered by the Environmental Protection Agency (the "EPA"), the Department of Transportation (the "DOT") and similar government agencies. These laws, regulations and rules govern: the discharge of materials into the environment, air and water; reporting storage of hazardous wastes and other hazardous materials; the transportation, handling and disposal of wastes and other materials; the labeling of pesticides and similar substances; and investigation and remediation of releases of hazardous materials. Failure to comply with these laws, regulations and rules could subject us to administrative penalties, injunctive relief, civil remedies and possible recalls of products. Our hedging transactions and activities are subject to the rules and regulations of the exchanges we use, including the Chicago Mercantile Exchange (the "CME"), as well as the U.S. Commodity Futures Trading Commission (the "CFTC").

Competition. The petroleum refining and wholesale fuels business is very competitive. Among our competitors are some of the world's largest integrated petroleum companies, which have their own crude oil supplies, distribution and marketing systems. We also compete with smaller domestic refiners and marketers in the midwestern and northwestern United States, with foreign refiners who import products into the United States and with producers and marketers in other industries supplying other forms of energy and fuels to consumers. Given the commodity nature of the end products, profitability in the 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 competitors that are much larger than us and that have greater brand recognition and distribution outlets throughout the country and the world than we do. We are also experiencing increased competition from regional and unbranded retailers. Our owned and non-owned retail outlets are located primarily in the northwestern, midwestern and southern United States.

We market refined fuel products in five principal geographic areas. The first area includes the Midwest and northern plains. Competition at the wholesale level in this area includes major oil companies as well as independent refiners and wholesale brokers/suppliers. This area has a robust spot market and is influenced by the large refinery center along the gulf coast.

To the east of the Midwest and northern plains is another unique marketing area. This area centers near Chicago, Illinois and includes eastern Wisconsin, Illinois and Indiana. In this area, we principally compete with the major oil companies as well as independent refineries and wholesale brokers/suppliers.

Another market area includes Arkansas, Missouri and the northern part of Texas. Competition in this area includes the major oil companies and independent refiners. This area is principally supplied from the Gulf Coast refinery center and is also driven by a strong spot market that reacts quickly to changes in the international and national supply balance.

Another geographic area includes Montana, western North Dakota, Wyoming, Utah, Idaho, Colorado and western South Dakota. Competition at the wholesale level in this area includes the major oil companies and independent refineries.

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

Table of Contents

AG

Overview

Our Ag segment includes our grain marketing, country operations, crop nutrients, processing and food ingredients and renewable fuels businesses. These businesses work together to facilitate the production, purchase, sale and eventual use of grain and other agricultural products within the United States, as well as internationally. In fiscal 2018, revenues in our Ag segment were $25.1 billion after elimination of intersegment revenues, consisting principally of grain sales.

Operations

Grain Marketing. We are the nation's largest cooperative marketer of grain and oilseed based on grain storage capacity and grain sales. Our grain marketing operations purchase grain directly from agricultural producers and elevator operators primarily in the midwestern and western United States and indirectly through our country operations business. The purchased grain is typically contracted for sale for future delivery at a specified location, and we are responsible for handling the grain and either arranging for or facilitation of its transportation to that location. We own and operate export terminals, river terminals and elevators throughout the United States to handle and transport grain and grain products. We also maintain locations in Europe, the Middle East, the Pacific Rim and South America for the marketing, merchandising and sourcing of grains and crop nutrients. We primarily conduct our grain marketing operations directly, but do conduct some of our operations through joint ventures, including TEMCO, LLC ("TEMCO"), a 50% joint venture with Cargill, Incorporated ("Cargill") focused on exports primarily to Asia.

Country Operations. Our country operations business operates 466 agri-operations locations through 44 business units dispersed throughout the midwestern and western United States. Most of these locations purchase grain from farmers and sell agronomy, energy, feed and seed products to those same producers and others, although not all locations provide every product and service. We also manufacture animal feed through eight owned plants and four limited liability companies and process sunflowers for human food and other uses.

Crop Nutrients. Our wholesale crop nutrients business delivers products directly to our customers and our country operations business from the manufacturer or through our 18 inland and river warehouse terminals and other non-owned storage facilities located throughout the United States. To supplement what is purchased domestically, our Galveston, Texas deep water port and terminal receives fertilizer by vessel from origins such as Asia and the Caribbean basin where significant volumes of urea are produced. The fertilizer is then shipped by rail to destinations within crop producing regions of the United States.

Processing and Food Ingredients. Our processing and food ingredients operations are conducted at facilities that can crush approximately 120 million bushels of oilseeds on an annual basis, producing approximately 2.7 million short tons of meal/flour and 1.5 billion pounds of edible oil annually. We purchase our oilseeds from members, other CHS businesses and third parties that have tightly integrated connections with our grain marketing operations and country operations business.

Renewable Fuels. Our renewable fuels business produces 265 million gallons of fuel grade ethanol and 685 thousand tons of dried distillers grains with solubles ("DDGS") annually. We also market over 590 million gallons of ethanol and 4.5 million tons of DDGS annually under marketing agreements for other production plants.

Products and Services

Our Ag segment provides local cooperatives and farmers with the inputs and services they need to produce grain and raise livestock. These include seed, crop nutrients, crop protection products, animal feed, animal health products, refined fuels and propane. We also buy and merchandise grain in both domestic and international markets. With a portion of the grain we purchase we produce renewable fuels, including ethanol and DDGS. We also produce refined oils, meal and soyflour at our processing facilities.

Sales and Marketing; Customers

Our Ag segment provides products and services to a wide range of customers, primarily in the United States. These customers include member and non-member producers, local cooperatives, elevators, grain dealers, grain processors and crop nutrient retailers. We sell our edible oils and soyflour to food companies. The meal we produce is sold to integrated livestock producers and feed mills. The ethanol and DDGS we produce are sold throughout the United States and to various international locations.

Table of Contents

Industry; Competition

Many of the business activities in our Ag segment are highly seasonal and, consequently, the operating results for our Ag segment will typically vary throughout the year. For example, our country operations and crop nutrients businesses generally experience higher volumes and income during the spring planting season and in the fall, which corresponds to harvest. In addition, our Ag segment operations may be adversely affected by relative levels of supply and demand, both domestic and international, commodity price levels and transportation costs and conditions. Supply is affected by weather conditions, disease, insect damage, acreage planted and government regulations and policies. Demand may be affected by foreign governments and their programs, relationships of foreign countries with the United States, the affluence of foreign countries, acts of war, currency exchange fluctuations and substitution of commodities. Demand may also be affected by changes in eating habits, population growth, the level of per capita consumption of some products and the level of renewable fuels production.

Regulation. Our Ag operations are subject to laws and related regulations and rules designed to protect the environment that are administered by the EPA, the DOT and similar government agencies. These laws, regulations and rules govern: the discharge of materials into the environment, air and water; reporting storage of hazardous wastes and other hazardous materials; the transportation, handling and disposal of wastes and other materials; the labeling of pesticides and similar substances; and the investigation and remediation of releases of hazardous materials. In addition, environmental laws impose a liability on owners and operators for investigation and remediation of contaminated property, and a party who sends hazardous materials to those contaminated properties for treatment, storage, disposal or recycling. In some instances, that liability exists regardless of fault. Our grain marketing operations, country operations business, processing and food ingredient operations and renewable fuel operations are also subject to laws and related regulations and rules administered by the United States Department of Agriculture (the ”USDA”), the United States Food and Drug Administration (the “FDA”) and other federal, state, local and foreign governmental agencies that govern the processing, packaging, storage, distribution, advertising, labeling, quality and safety of feed and grain products. Failure to comply with these laws, regulations and rules could subject us to administrative penalties, injunctive relief, civil remedies and possible recalls of products. The hedging transactions and activities of our grain marketing, country operations, processing and food ingredient and renewable fuels businesses are subject to the rules and regulations of the exchanges we use, including the CME, as well as the CFTC.

Competition. In our Ag segment, we have significant competition in the businesses in which we operate based principally on price, services, quality, patronage and alternative products. Our businesses are dependent upon relationships with local cooperatives and private retailers, proximity to the customers and producers and competitive pricing. We compete with other large distributors of agricultural products, as well as other regional or local distributors, local cooperatives, retailers and manufacturers.

NITROGEN PRODUCTION

Overview

Our Nitrogen Production segment consists solely of our approximate 10% membership interest (based on product tons) in CF Nitrogen, our strategic venture with CF Industries Holdings, Inc. ("CF Industries"). In February 2016, in connection with our investment in CF Nitrogen, we entered into an 80-year supply agreement with CF Nitrogen that entitles us to purchase up to 1.1 million tons of granular urea and 580,000 tons of urea ammonium nitrate (“UAN”) annually for ratable delivery. We account for our CF Nitrogen investment using the hypothetical liquidation at book value method, and on August 31, 2018, our investment was approximately $2.7 billion.

Our investment in CF Nitrogen positions us and our members for long-term dependable fertilizer supply, supply chain efficiency and production economics. In addition, the ability to source product from CF Nitrogen production facilities under our supply agreement benefits our members and customers through strategically positioned access to essential fertilizer products.

Operations

CF Nitrogen has four production facilities located in: Donaldsonville, Louisiana; Port Neal, Iowa; Yazoo City, Mississippi; and Woodward, Oklahoma. Natural gas is the principal raw material and primary fuel source used in the ammonia production process. CF Nitrogen has access to competitively-priced natural gas through a reliable network of pipelines that are connected to major natural gas trading hubs near its production facilities.

Table of Contents

Products and Services

CF Nitrogen produces nitrogen-based products including, methanol, UAN and urea and related products.

Sales and Marketing; Customers

CF Nitrogen has three customers including CHS and two consolidated subsidiaries of CF Industries.

Industry; Competition

Regulation. CF Nitrogen is subject to laws and related regulations and rules designed to protect the environment that are administered by the EPA and similar government agencies. These laws, regulations and rules govern: the discharge of materials into the environment, air and water; reporting storage of hazardous wastes and other hazardous materials; the handling and disposal of wastes and other materials; and the investigation and remediation of releases of hazardous materials. In addition, environmental laws impose a liability on owners and operators for investigation and remediation of contaminated property, and a party who sends hazardous materials to those contaminated properties for treatment, storage, disposal or recycling. In some instances, that liability exists regardless of fault.

Competition. CF Nitrogen competes primarily on delivered price and, to a lesser extent, on customer service and product quality. CF Nitrogen competes domestically with a variety of large companies in the fertilizer industry. There is also significant competition from products sourced from other regions of the world.

CORPORATE AND OTHER

CHS Capital. Our wholly-owned finance company subsidiary, CHS Capital, LLC (“CHS Capital”), provides cooperative associations with a variety of loans that meet commercial agriculture needs. These loans include operating, term, revolving and other short and long-term options. CHS Capital also provides loans to individual producers for crop inputs, feed, and margin calls. Specific to producer financing, during the third quarter of fiscal 2017 it was determined CHS Capital would no longer make new term loans to producers. However, producer term loans written prior to this decision may still be outstanding. Subsequently, it was also determined CHS Capital would change its offerings on producer operating loans to be marketed only in strategic geographic regions.

CHS Hedging. Our wholly-owned commodity brokerage subsidiary, CHS Hedging, LLC (“CHS Hedging”), is a registered Futures Commission Merchant and a clearing member of both the Chicago Board of Trade and the Minneapolis Grain Exchange. CHS Hedging provides limited consulting services and commodity risk management services primarily to agricultural producers and commercial agribusinesses in the areas of agriculture and energy.

CHS Insurance. Our wholly-owned subsidiary, CHS Insurance Services, LLC (“CHS Insurance”), was sold in May 2018. CHS Insurance was a full-service independent agency that offered property and casualty insurance, surety bonds, safety resources, employment services and group benefits.

Wheat Milling

Ardent Mills, LLC (“Ardent Mills”), the largest flour miller in the United States, was formed as a joint venture with Cargill and ConAgra Foods, Inc., which combined the North American flour milling operations of its three parent companies, including assets from our existing joint venture milling operations Horizon Milling, LLC and Horizon Milling, ULC and CHS-owned mills. In connection with the formation of Ardent Mills, the joint venture parties also

entered into various ancillary and non-compete agreements including, among other things, an agreement for us to supply Ardent Mills with certain wheat and durum products. We hold a 12% interest in Ardent Mills and account for our investment as an equity method investment due to our ability to exercise significant influence through our ability to appoint a member of the Board of Shareholders and Board of Managers. On August 31, 2018, our investment in Ardent Mills was $205.9 million.

Foods

Ventura Foods, LLC ("Ventura Foods") is a joint venture between CHS and Wilsey Foods, Inc., a majority-owned subsidiary of MBK USA Holdings, Inc., with each parent company owning a 50% interest. Ventura Foods produces vegetable oil-based products such as packaged frying oils, margarine, mayonnaise, salad dressings and other food products, and currently has 16 manufacturing and distribution locations across the United States and Canada. Ventura Foods sources its raw materials, which consist primarily of soybean oil, canola oil, palm/coconut oil, peanut oil and other ingredients and supplies, from various domestic and overseas suppliers, including our oilseed processing operations. We account for our investment in Ventura Foods using the equity method of accounting, and on August 31, 2018, our investment was $360.2 million.

EMPLOYEES

On August 31, 2018, we had 10,495 full, part-time, temporary and seasonal employees. Of that total, 2,534 were employed in our Energy segment, 7,317 were employed in our Ag segment and 644 were employed in Corporate and Other. In addition to those individuals directly employed by us, many individuals work for joint ventures in which we have a 50% or less ownership interest, including employees of CF Nitrogen and Ventura Foods in our Nitrogen Production segment and Corporate and Other category, respectively, and are not included in these totals.

Labor Relations

As of August 31, 2018, we had 11 collective bargaining agreements with unions covering approximately 9.0% of our employees in the United States. These collective bargaining agreements expire on various dates through July 1, 2022, except that one collective bargaining agreement covering 20 pipeline employees renews automatically every September 1, unless 60 days’ notice of termination is given.

CHS AUTHORIZED CAPITAL

We are an agricultural membership cooperative organized under Minnesota cooperative law to do business with member and non-member patrons.

Table of Contents

ITEM 1A. RISK FACTORS

CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Annual Report on Form 10-K contains and our other publicly available documents may contain, and our officers, directors and other representatives may from time to time make, “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as “anticipate,” “intend,” “plan,” “goal,” “seek,” “believe,” “project,” “estimate,” “expect,” “strateg “likely,” “may,” “should,” “will” and similar references to future periods. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our businesses, financial condition and results of operations, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not place undue reliance on any forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements are discussed or identified in our public filings made with the U.S. Securities and Exchange Commission, including in this “Risk Factors” discussion. Any forward-looking statements made by us in this Annual Report on Form 10-K are based only on information currently available to us and speak only as of the date on which the statement is made. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise, except as required by applicable law.

Reference to this Cautionary Statement in the context of a forward-looking statement shall be deemed to be a statement that any one or more of the following factors may cause actual results to differ materially from those indicated in the forward-looking statement.

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

We have identified material weaknesses in our internal control over financial reporting. If these material weaknesses persist or if we fail to establish and maintain effective internal control over financial reporting, our ability to accurately report our results could be adversely affected.

Maintaining effective internal control over financial reporting is necessary for us to produce reliable financial statements. We have concluded that material weaknesses in our internal control over financial reporting exist, and consequently our Board of Directors determined that management’s report on internal control over financial reporting as of August 31, 2017, included in our Annual Reports on Form 10-K for the years then ended, should no longer be relied upon. In connection with these material weaknesses, we have restated our financial statements for the years ended August 31, 2017 and 2016, each of the quarters of fiscal 2017 and for the first three quarters of fiscal 2018. These material weaknesses are discussed further within Item 9A, Controls and Procedures, of this Annual Report on Form 10-K. The existence of one or more material weaknesses precludes a conclusion by management that a corporation’s internal control over financial reporting is effective.

In response to the identified material weaknesses, our management, with the oversight of the Audit Committee of our Board of Directors, has dedicated significant resources, including the involvement of outside advisors, and efforts to improve our internal control over financial reporting and has taken immediate action to remediate the material weaknesses identified. Certain remedial actions have been completed, including the termination of the employee who engaged in the misconduct, and the termination, reassignment and discipline of other employees who were determined to have responsibility for the above-described misstatements relating to our freight trading operations in our Grain Marketing business unit. We continue to actively plan for and implement additional control procedures, including (i) instituting additional training programs for our finance, accounting, operations, IT and other necessary personnel; (ii) evaluating the quality of and sufficiency of our finance, accounting and other internal control personnel and resources; (iii) establishing the appropriate roles and responsibilities within our organization to improve our knowledge and expertise over internal control over financial reporting; (iv) implementing IT project testing oversight and management; and (v) evaluating the manual and automated IT control environment surrounding critical enterprise resource planning systems, including the new ERP system.

If we fail to remediate these material weaknesses or fail to otherwise maintain effective control over financial reporting in the future, it could result in a material misstatement of our financial statements that would not be prevented or detected on a timely basis. Our management and Board of Directors continue to devote significant time and attention to remediating these material weaknesses and improving our internal control over financial reporting, and we expect to continue to incur costs associated with remediating the material weaknesses in internal controls over financial reporting and implementing appropriate processes, which could include fees for additional audit, legal and consulting services, which could negatively affect our financial condition and operating results.

The consequences of our investigation with respect to certain rail freight contracts purchased in connection with our North American grain marketing operations could have a material adverse effect on our business and could subject us to regulatory scrutiny.

As part of our preparation of this Annual Report on Form 10-K, our management noted potentially excessive valuations in the net derivative asset valuations relating to certain rail freight contracts purchased in connection with our North American grain marketing operations. Following the identification of these potentially excessive valuations, we engaged external counsel, which engaged forensic accountants to work with our management, under the oversight of the Audit Committee of our Board of Directors, to conduct an investigation. The investigation concluded that there were misstatements in the consolidated financial statements included in certain of our filings with the SEC that were due to intentional misconduct by a former employee in our rail freight trading operations, as well as due to rail freight contracts and certain non-rail freight contracts not meeting the technical accounting requirements to qualify as derivative financial instruments. The misconduct consisted of the former employee manipulating the mark-to-market valuation of rail cars that were the subject of rail freight purchase contracts and manipulating the quantity of rail cars included in the monthly mark-to-market valuation. In addition, the investigation revealed intentional misstatements that were made by the former employee to our external auditor in connection with its audit of our consolidated financial statements for the year ended August 31, 2017. During the course of, and as a result of, the investigation, we terminated the former employee. The Audit Committee of our Board of Directors and the Company's legal counsel reported the findings of the investigation to our Board of Directors and to our independent registered public accounting firm and have discussed the evidence uncovered and conclusions reached in the investigation with the Staff of the Division of Enforcement of the SEC. Although we are not aware that any formal investigation or inquiry has been commenced, we are cooperating, and will continue to fully cooperate with, the Staff of the Division of Enforcement of the SEC in any review it may conduct into these matters. We are unable at this time to predict when the SEC Division of Enforcement’s review of these matters will be completed or what regulatory or other outcomes may result. If the SEC or any other governmental authority determines that violations of certain laws or regulations occurred, then we could be exposed to a broad range of civil and criminal sanctions. Although we are currently unable to predict what actions the SEC or any other governmental authority might take, or what the likely outcome of any such actions might be, or estimate the range of reasonably possible fines or penalties, such actions, fines and/or penalties could be material, resulting in a material adverse effect on our business, prospects, reputation, financial condition, results of operations or cash flows. Even if an inquiry or investigation does not result in an adverse determination, our business, prospects, reputation, financial condition, results of operations or cash flows could still be adversely impacted. In addition, the expenses incurred in connection with any investigation by the SEC or any other governmental authority, and the diversion of the attention of our management that could occur as a result thereof, could adversely affect, our business, financial condition, results of operations or cash flows.

Our revenues, results of operations and cash flows could be materially and adversely affected by changes in commodity prices.

Our revenues, results of operations and cash flows are affected by market prices for commodities such as crude oil, natural gas, ethanol, fertilizer, grain, oilseed, flour and crude and refined vegetable oils. 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, fertilizer 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. We have processes in place to monitor exposures to these risks and engage in strategies to manage these risks. If these controls and strategies are not successful in mitigating our exposure to these fluctuations, we could be materially and adversely affected. Increases in market prices for commodities that we purchase without a corresponding increase in the price of our products or our sales volume or a decrease in our other operating expenses could reduce our revenues and net income.

Table of Contents

For example, 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. The prices for both crude oil and for gasoline, diesel fuel and other refined petroleum products fluctuate widely. Factors influencing these prices, many of which are beyond our control, include:

- levels of worldwide and domestic supplies;
- capacities of domestic and foreign refineries;
- the ability of the members of the Organization of Petroleum Exporting Countries ("OPEC") to agree to and maintain oil price and production controls, and the price and level of imports;
- disruption in supply;
- political instability or armed conflict in oil-producing regions;
- the level of demand from consumers, agricultural producers and other customers;
- the price and availability of alternative fuels;
- the availability of pipeline capacity; and
- domestic and foreign governmental regulations and taxes.

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

Government policies, mandates, regulations and trade agreements could adversely affect our operations and profitability.

Our business is subject to numerous government policies, mandates and regulations that could have an adverse effect on our operations or profitability. For example, government policies, mandates and regulations related to genetically modified organisms, traceability standards, product safety and labeling and renewable and low carbon fuels could have an adverse effect on our operations or profitability by, among other things, influencing the planting of certain crops, the location and size of crop production, the trade of processed and unprocessed commodity products, the volumes and types of imports and exports, the availability and competitiveness of feedstocks as raw materials and the viability and volume of certain of our products. In our Energy segment, government policies, mandates and regulations designed to stop or impede the development or production of oil, such as those limiting or banning the use of hydraulic fracturing or drilling, could also adversely affect our operations and profitability.

In addition, changes in international trade agreements and trade disputes can adversely affect commodity trade flows by limiting or disrupting trade between countries or regions. The U.S. government has imposed tariffs on certain products imported into the United States, which has resulted in reciprocal tariffs from other countries, including countries where we operate, like China. It is unclear what changes, if any, will be made to international trade agreements that are relevant to our business activities. These actions have created uncertainty between the United

States and other nations, including countries where we operate. Changes in trade policy, withdrawals from or material modifications to relevant international trade agreements and continued uncertainty could depress economic activity and restrict our access to suppliers and customers. Tariffs and trade restrictions that are implemented on products that we buy and sell could increase the cost of those products or adversely affect the availability of market access. These cost increases and market changes could adversely affect the demand for our products and reduce margins, which could have a material adverse effect on our business and our earnings. In addition, the U.S. government can prevent or restrict us from doing business in or with other countries. These restrictions, and those of other governments, could limit our ability to gain access to business opportunities in various countries.

Table of Contents

We are subject to political, economic, legal and other risks of doing business globally.

We are a global business and are exposed to risks associated with having global operations. These risks include, but are not limited to, risks relating to terrorism, war, civil unrest, changes in a country’s or region’s social, economic or political conditions, changes in local labor conditions and regulations, changes in safety and environmental regulations, changes in regulatory or legal environments generally, restrictions on currency exchange activities, currency exchange fluctuations and taxes. In particular, some countries where we operate lack well-developed legal systems or have not adopted clear legal and regulatory frameworks. This lack of legal certainty exposes our operations to increased risks, including increased difficulty in enforcing our agreements in those jurisdictions and increased risks of adverse actions by local government authorities, such as unilateral or forced renegotiation, modification or nullification of existing agreements or expropriations.

Demand for our products is subject to global and regional factors that are outside of our control that could adversely impact our business.

The level of demand for our products is affected by global and regional demographics and macroeconomic conditions, including population growth rates and changes in standards of living. A significant downturn in global economic growth or recessionary conditions in major geographic regions may lead to a reduced demand for agricultural commodities, which could have a material adverse effect on our business, financial condition, liquidity, results of operations and prospects. Additionally, weak global economic conditions and adverse conditions in financial and capital markets may adversely impact the financial condition and liquidity of some of our customers, suppliers and other counterparties, which could have a material adverse effect on our customers' ability to pay for our products and on our business, financial condition, liquidity, results of operations and prospects.

Our revenues, margins, results of operations and cash flows could be materially and 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 and margins would decline and our results of operations and cash flows could be materially and adversely affected.

We are exposed to the risk of nonperformance and nonpayment by counterparties.

We are exposed to the risk of nonperformance and nonpayment by counterparties, whether pursuant to contracts or otherwise. Risk of nonperformance and nonpayment by counterparties includes the inability or refusal of a counterparty to pay us, the inability or refusal to perform because of a counterparty’s financial condition and liquidity, or for any other reason, and also the risk that the counterparty will refuse to perform a contract during a period of price fluctuations where contract prices are significantly different than the then current market prices. In the event that we experience significant nonperformance or nonpayment by counterparties, our financial condition, results of operations and cash flows could be materially and adversely affected. For example, we store inventory in third-party warehouses, and the operators of these warehouses may not adequately store or secure our inventory, or they may improperly sell that inventory to someone else, which could expose us to a loss of the value of that inventory. In the event that we experience any such nonperformance by a third-party warehouse operator, our financial condition, results of operations and cash flows could be materially and adversely affected.

We participate in highly competitive business markets and we may not be able to continue to compete successfully, which could have a material adverse effect on us.

We operate in several highly competitive business segments and our competitors may succeed in developing new or enhanced products that are better than ours, may be more successful in marketing and selling their products than we are, or may have more effective supply chain capability than we have. Competitive factors include price, service level, proximity to markets, access to transportation, product quality and marketing. In our business segments, we compete with certain companies that are larger and better known than we are and that have greater marketing, financial, personnel and other resources than we do. As a result, we may not be able to continue to compete successfully with our competitors, which could have a material adverse effect on our business, financial condition, liquidity, results of operations and prospects.

Table of Contents

Our business, profitability and liquidity may be adversely affected by the deterioration in the credit quality of, or defaults by, third parties who owe us money.

We extend credit to, make loans to and engage in other financing arrangements with individual producers, local cooperatives and other third parties around the world. When we do so, we incur credit risk and the risk of losses if our borrowers and others to which we extend credit do not repay their loans or perform their obligations to pay us the money they owe. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or for other reasons. If these counterparties do not pay us back, such that we experience significant defaults on their payment obligations to us, our financial condition, results of operations or cash flows could be materially and adversely affected.

We are also subject to the risk that our rights against borrowers and other third parties that owe us money may not be enforceable in all circumstances, for example if a borrower or third party declares bankruptcy. In addition, due to implications of the overall agricultural sector's extended period of depressed commodity prices and margins, among other factors, the credit quality of borrowers and other third parties whose obligations we hold could deteriorate, including a deterioration in the value of collateral posted by those parties to secure their obligations to us pursuant to purchase contracts, loan agreements or other contracts. If that deterioration occurs, the material adverse effects of third parties not performing their repayment obligations may be exacerbated if the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount owed to us. For example, certain loans and other financing arrangements we undertake with agricultural producers are typically secured by the counterparty’s crops that are planted in the current year. There is a risk that the value of the crop will not be sufficient to satisfy the counterparty’s repayment obligations under the financing arrangement as a result of weather, crop growing conditions, other factors that influence the price, supply and demand for agricultural commodities or for other reasons.

In addition, disputes may arise as to the amount of collateral we are entitled to receive and the value of pledged assets. The termination of contracts and the foreclosure on collateral may subject us to claims for the improper exercise of our rights. Default rates, downgrades and disputes with counterparties as to the valuation of collateral increase significantly in times of market stress and illiquidity.

In respect of our lending activity, we evaluate the collectability of both commercial and producer loans on a specific identification basis, based on the amount and quality of the collateral obtained, and record specific loan loss reserves when appropriate. Consistent with accounting principles generally accepted in the United States ("U.S. GAAP"), a general reserve is also maintained based on historical loss experience and various qualitative factors. For other forms of credit, we establish reserves as appropriate and consistent with U.S. GAAP. The reserves represent our best estimate based upon current facts and circumstances. Future developments or changes in assumptions may cause us to record adjustments to the reserves which could materially and adversely affect our results of operations.

Changes in federal income tax laws or in our tax status could increase our tax liability and reduce our net income significantly.

Current federal income tax laws, regulations and interpretations regarding the taxation of cooperatives allow us to exclude income generated through business with or for a member (patronage income) from our taxable income. If any changes are made to such federal income tax laws, regulations or interpretations, 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 would significantly decrease.

Table of Contents

We incur significant costs in complying with applicable laws and regulations. Any failure to comply with these laws and regulations, or make the capital or other investments necessary to comply with these laws and regulations, could expose us to unanticipated expenditures and liabilities.

We are subject to numerous federal, state and local provisions regulating our business and operations. 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, the compliance burden and impact on our operations and profitability as a result of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") and related regulations continue to evolve, as federal agencies have implemented and continue to implement its many provisions through regulation. These efforts to change the regulation of financial markets subject users of derivatives, such as CHS, to extensive oversight and regulation by the CFTC. Such initiatives have imposed, and may continue to impose, additional costs on us, including operating and compliance costs, and could materially affect the availability, as well as the cost and terms, of certain transactions. Certain federal regulations, studies and reports addressing Dodd-Frank, including the regulation of swaps and derivatives, are still being implemented and others are being finalized. We will continue to monitor these developments. Any of these matters could have a material adverse effect on our business, financial condition, liquidity, results of operations and prospects.

We establish reserves for the future cost of 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, criminal fines and penalties, and recalls of our products. For example, we regularly maintain hedges to manage the price risks associated with our commercial operations. These transactions typically take place on exchanges such as the CME. Our hedging transactions and activities are subject to the rules and regulations of the exchanges we use, including the CME, as well as the CFTC. All exchanges have broad powers to review required records, investigate and enforce compliance and to punish noncompliance by entities subject to their jurisdiction. The failure to comply with such rules and regulations could lead to restrictions on our trading activities or subject us to enforcement action by the CFTC or a disciplinary action by the exchanges, which could lead to substantial sanctions. In addition, any investigation or proceeding by an exchange or the CFTC, whether successful or unsuccessful, could result in substantial costs, the diversion of resources, including management time, and potential harm to our reputation, all of which, could have a material adverse effect on our business financial condition, liquidity, results of operations and prospects.

We are subject to the Foreign Corrupt Practices Act of 1977 and other similar anti-corruption, anti-bribery and anti-kickback laws and regulations, and any noncompliance with those laws and regulations by us or others acting on our behalf could have a material adverse effect on our business, financial condition and results of operations.

We operate on a global basis and are subject to anti-corruption, anti-bribery and anti-kickback laws and regulations, including the Foreign Corrupt Practices Act of 1977, as amended (the "FCPA"). The FCPA and other similar anti-corruption, anti-bribery and anti-kickback laws and regulations in other jurisdictions generally prohibit companies and their intermediaries or agents from making improper payments to government officials or any other persons for the purpose of obtaining or retaining business. We operate and sell our products in many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-corruption, anti-bribery and anti-kickback laws and regulations may conflict with local customs and practices. In addition, in certain countries, we engage third-party agents or intermediaries to act on our behalf and/or conduct all or a portion of our operations through joint venture partners, including in those countries with a high risk for corruption.

If any of these third parties violate applicable anti-corruption, anti-bribery or anti-kickback laws or regulations, we may be liable for those violations. We have policies in place prohibiting employees from making or authorizing improper payments, we train our employees regarding compliance with anti-corruption, anti-bribery and anti-kickback laws and regulations and we utilize procedures to identify and mitigate risks of such misconduct by our employees, third-party agents, intermediaries and joint venture partners. However, we cannot provide assurances that our employees, third-party agents, intermediaries or joint venture partners will comply with those policies, laws and regulations. If we are found liable for violations of the FCPA, or other similar anti-corruption, anti-bribery or anti-kickback laws or regulations, either due to our own acts or out of inadvertence, or due to the acts or inadvertence of others, we could suffer criminal or civil fines or penalties or other repercussions, including reputational harm, which could have a material adverse effect on our business, financial condition and results of operations.

In the fourth quarter of fiscal 2018, we contacted the U.S. Department of Justice and SEC to voluntarily self-disclose potential violations of the FCPA in connection with a small number of reimbursements the Company made to Mexican customs agents in the 2014-2015 time period for payments the customs agents made to Mexican customs officials in connection with

inspections of grain crossing the U.S.-Mexican border by railcar. We are fully cooperating with the government, including with the assistance of legal counsel, which assistance includes investigating other areas of potential interest to the government. We are unable at this time to predict when our or the government agencies' review of these matters will be completed or what regulatory or other outcomes may result.

Environmental and energy laws and regulations may result in increased operating costs and capital expenditures and may have a material and adverse effect on us.

New and current environmental and energy laws and regulations, including regulations relating to alternative energy sources and the risk of global climate change, new interpretations of existing environmental and energy laws and regulations, increased governmental enforcement of environmental and energy laws and regulations or other developments in these areas could require us to make additional unforeseen expenditures or to make unforeseen changes to our operations, either of which could adversely affect us. For example, it is possible that some form of regulation will be forthcoming at the federal or state level in the United States with respect to emissions of greenhouse gases (“GHGs”), such as carbon dioxide, methane and nitrous oxides. New federal legislation or regulatory programs that restrict emissions of GHGs, or comparable new state legislation or programs, or customer requirements, in areas where we or our customers conduct business could adversely affect our operations and the demand for our energy products, which could have a material adverse effect on our business, financial condition, liquidity, results of operations and prospects. In addition, new legislation or regulatory programs could require substantial expenditures for the installation and operation of systems and equipment that we do not currently possess or for substantial modifications to existing equipment. The actual effects of climate change on our businesses are, however, unknown and indeterminable at this time.

Also, pursuant to the Energy Independence and Security Act of 2007, the EPA has promulgated the Renewable Fuel Standard (“RFS”), which requires refiners to blend renewable fuels, such as ethanol and biodiesel, with their petroleum fuels or purchase renewable energy credits, known as Renewable Identification Numbers ("RINs"), in lieu of blending. The EPA generally establishes new annual renewable fuel percentage standards for each compliance year in the preceding year. We generate RINs in our marketing operations under the RFS; however, it may not be enough to meet the needs of our refining capacity and if so, RINs must be purchased on the open market. In recent years the price of RINs has been extremely volatile. As a result, the purchase of RINs could have a negative impact on our future refined fuels margins, the impact of which we are not able to estimate at this time.

During fiscal 2018, the EPA granted our Laurel, Montana refinery an extension of the small refinery exemption under the RFS as provided for under the Clean Air Act for 2017 (the "small refinery exemption"). This action provided our Laurel, Montana refinery an exemption from its renewable fuel volume obligations under the RFS program for compliance year 2017. In granting this exemption the EPA considered a number of factors and concluded that the Laurel, Montana refinery qualified for the exemption as prescribed under the standard. As with other competitors who received the exemption in the same geographic area as our Laurel, Montana refinery, the small refinery exemption lowers our cost to operate and has a positive impact on our earnings. Since the small refinery exemption is granted on a year-to-year basis, we are unable to predict whether we will receive this exemption again in the future.

Environmental liabilities could have a material adverse effect on us.

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 liquid fertilizers, 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, other costs, such as capital expenditures, and injunctions. In addition, an

owner or operator of contaminated property, and a party who sends hazardous materials to such site for treatment, storage, disposal or recycling, can be liable for the cost of investigation and remediation under environmental laws. In some instances, such liability exists regardless of fault. Moreover, future or unknown past releases of hazardous substances could subject us to private lawsuits claiming damages, including for bodily injury or property damage, and to adverse publicity, which could have a material adverse effect on us. Liabilities, including legal costs, related to remediation of contaminated properties are not recognized by us until the related costs are considered probable and can be reasonably estimated.

Actual or perceived quality, safety or health risks associated with our products could subject us to significant liability and damage our business and reputation.

If any of our food or animal feed products became adulterated or misbranded, we may need to recall those items and could experience product liability claims if consumers or customers' livestock were injured, or were claimed to be injured, as a

Table of Contents

result. A widespread product recall or a significant product liability judgment could cause our products to be unavailable for a period of time or could cause a loss of consumer or customer 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 business and reputation with existing and potential consumers and 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 animal 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 or procure products that satisfy new consumer preferences, there will be a decreased demand for our products, which could have a material adverse effect on our business, financial condition, liquidity, results of operations and prospects.

Our financial results are susceptible to seasonality.

Many of our business activities are highly seasonal and operating results vary throughout the year. Our revenue and income are generally lowest during the second and fourth fiscal quarters and highest during the first and third fiscal quarters. For example, in our Ag segment, our crop nutrients and country operations businesses generally experience higher volumes and income during the spring planting season and during the fall harvest season. Our grain marketing operations are also subject to fluctuations in volume and income based on producer harvests, world grain prices and demand, and international trade relationships. Our Energy segment generally experiences higher volumes and income in certain operating areas, such as refined products, in the summer and early fall when gasoline and diesel fuel usage by our customers and members is highest and is subject to global supply and demand forces. Other energy products, such as propane, may experience higher volumes and income during the winter heating and crop drying seasons.

Our operations are subject to business interruptions and casualty losses; we do not insure against all potential losses and could be seriously harmed by unanticipated 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;
- our corporate headquarters, the facilities we own or the significant inventories that we carry could be damaged or destroyed by catastrophic events, extreme weather conditions or contamination;
- someone may accidentally or intentionally introduce a computer virus to our information technology systems or breach our computer systems or other cyber resources; and
- an occurrence of a pandemic flu or other disease affecting a substantial part of our workforce or our customers could cause an interruption in our business operations.

The effects of any of these events could be significant. We maintain insurance coverage 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 us.

Our risk management strategies may not be effective.

Our business is affected by fluctuations in commodity prices, transportation costs, energy prices, foreign currency exchange rates and interest rates. We monitor position limits, account receivables and other exposures, and engage in other strategies and controls to manage these risks. Our monitoring efforts may not be successful at detecting a significant risk exposure and our controls and strategies may not be effective in adequately managing against the occurrence of a loss relating to a risk exposure. If our controls and strategies are not successful in mitigating our financial exposure to losses due to the fluctuations mentioned above, it could significantly and adversely affect our operating results.

Our business is capital-intensive in nature and we rely on cash generated from our operations and external financing to fund our strategies and ongoing capital needs.

We require significant capital, including access to credit markets from time to time, to operate our business and fund our strategies. Our working capital requirements are directly affected by the price of commodities, which may fluctuate significantly and change quickly. We also require substantial capital to maintain and upgrade our extensive network of facilities to keep pace with competitive developments, technological advances, regulations and changing safety standards. In addition, the expansion of our business and pursuit of acquisitions or other business opportunities has required, and may require, significant amounts of capital. If we are unable to generate sufficient cash flow or maintain access to adequate external financing, including as a result of significant disruptions in the global credit markets, it could restrict our current operations and our growth opportunities, which could adversely affect our operating results, and restrict our ability to repay our existing indebtedness.

Our cooperative structure limits our ability to access equity capital.

As a cooperative, we may not sell common stock in our company. In addition, existing laws and our articles of incorporation and bylaws limit dividends on any preferred stock we may issue to 8% per annum. These limitations may 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 materially and adversely affect our revenues, results of operations and cash flows.

Consolidation has occurred among the individual producers of products we sell and purchase, including crude oil, fertilizer and grain, and it is likely to continue in the future. Consolidation could allow producers to negotiate pricing, supply availability and other contract terms that are less favorable to us. Consolidation also may increase the competition among consumers of these products to enter into supply relationships with a smaller number of producers, resulting in potentially higher prices for the products we purchase.

Consolidation has occurred among cooperative associations that are wholesale customers of our products, which has resulted in a smaller wholesale and retail customer base for our products and has intensified the competition for these customers, and this consolidation is likely to continue in the future. 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 cooperatives, distributors, brokers and retailers elect not to purchase our products, our revenues, results of operations and cash flows could be materially and adversely affected.

In addition, in the seed, fertilizer and crop protection markets, consolidation at both the producer and wholesale customer level increases the potential for direct sales from the respective input manufacturer to the cooperative customers and/or the individual agricultural producer, which would remove us from the supply chain and could have a material and adverse effect on our revenues, results of operations and cash flows.

If our customers choose alternatives to our refined petroleum products, our revenues, results of operations and cash flows could be materially and adversely affected.

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. Declining demand for our energy products, particularly diesel fuel sold for farming applications, could materially and adversely affect our revenues, results of operations and cash flows.

The results of our agronomy business are highly 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, grain prices and the perception held by the producer of demand for production, all of which are outside of our control. In addition, weather conditions during the spring planting season and early summer spraying season also affect agronomy product volumes and profitability. Emerging sustainability and other environmental concerns that are outside of our control could also affect the future demand for agronomy products applied to crops and the volume of any such

application. Accordingly, factors outside of our control could materially and adversely affect the revenues, results of operations and cash flows of our agronomy business.

Technological improvements 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. Declining demand for our products could materially and adversely affect our revenues, results of operations and cash flows.

Acquisitions, strategic alliances, joint ventures, divestitures and other non-ordinary course of business events resulting from portfolio management actions and other evolving business strategies could affect future results.

We monitor our business portfolio and organizational structure and have made and may continue to make acquisitions, strategic alliances, joint ventures, divestitures and changes to our organizational structure. With respect to acquisitions, future results will be affected by our ability to identify suitable acquisition candidates, to adequately finance any acquisitions and to integrate acquired businesses quickly and obtain the anticipated financial returns, including synergies. Our ability to successfully complete a divestiture will depend on, among other things, our ability to identify buyers that are prepared to acquire such assets or businesses on acceptable terms and to adjust and optimize our retained businesses following the divestiture. Additionally, we may fail to consummate proposed acquisitions, divestitures, joint ventures or strategic alliances after incurring expenses and devoting substantial resources, including management time, to such transactions.

Several parts of our business, including in particular our nitrogen production business, our foods business and portions of our grain marketing and wheat milling operations, are operated through joint ventures with third parties where we do not have majority control of the venture. 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. Investments in joint ventures may, under certain circumstances, involve risks not present when a third party is not involved, including the possibility that co-venturers might become bankrupt or fail to fund their share of required capital contributions, in which case the joint venture may be unable to access needed growth capital (if the co-venturer is solely responsible for capital contributions) or we and any other remaining co-venturers would generally be liable for the joint venture's liabilities. Co-venturers may have economic, tax or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Our co-venturers may take actions that are not within our control, which may expose our investments in joint ventures to the risk of lower values or returns. Joint venture investments may also lead to impasses. Disputes between us and co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and effort on our day-to-day business. In addition, we may in certain circumstances be liable for the actions of our co-venturers. Each of these matters could have a material adverse effect on us.

We made certain assumptions and projections regarding the future of the markets served by our joint venture investments which included projected market pricing and demand for their products. These assumptions were an integral part of the economics used to evaluate these joint venture investment opportunities prior to consummation. To the extent that actual market performance varies from our models, our ability to achieve the projected returns on our joint venture investments may be impacted in a material adverse manner.

We utilize information technology systems to support our business. An ongoing multi-year implementation of an enterprise-wide resource planning system, reliance upon multiple legacy business systems, security breaches or other disruptions to our information technology systems or assets could interfere with our operations, compromise security of our customers' or suppliers' information and expose us to liability which could adversely impact our business and reputation.

Our operations rely on certain key information technology ("IT") systems, many of which are legacy in nature or may be dependent upon third-party services, to provide critical connections of data, information and services for internal and external users. Over the next several years, we expect to continue implementing a new enterprise resource planning system ("ERP"), which has and will continue to require significant capital and human resources to deploy. There can be no assurance that the actual costs for the ERP will not exceed our current estimates or that the ERP will not take longer to implement than we currently expect. In addition, potential flaws in implementing the ERP or in the failure of any portion/module of the ERP to meet our needs or provide appropriate controls may pose risks to our ability to operate successfully and efficiently. There may

Table of Contents

be other challenges and risks to both our aging and current IT systems over time due to any number of causes, such as catastrophic events, availability of resources, power outages, security breaches or cyber-based attacks, and as we upgrade and standardize our ERP system on a worldwide basis. These challenges and risks could result in legal claims or proceedings, liability or penalties, disruption in operations, loss of valuable data and damage to our reputation, all of which could adversely affect our business. Our ongoing IT investments include those relating to cybersecurity, including technology, hired expertise and cybersecurity risk mitigation actions. However, an incident or breach may occur and if it does, it could subject us to an adverse impact on our business and reputation.

ITEM 1B. UNRESOLVED STAFF COMMENTS

As of the date hereof, there were no unresolved comments from the SEC staff regarding our periodic or current reports.

Table of Contents

ITEM 2. PROPERTIES

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

Energy

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

Refineries	Laurel, Montana and McPherson, Kansas
Propane terminals	Biddeford, Maine; Glenwood, Minnesota; Rockville, Minnesota (50% owned by CHS); Hannaford, North Dakota; Ross, North Dakota; Hixton, Wisconsin
Transportation terminals/repair facilities	12 locations in Iowa, Kansas, Minnesota, Montana, North Dakota, South Dakota, Washington and Wisconsin, two of which are leased
Petroleum and asphalt terminals/storage facilities	11 locations in Montana, North Dakota and Wisconsin
Pipelines:	
Cenex Pipeline, LLC	Laurel, Montana to Fargo, North Dakota
Front Range Pipeline, LLC	Canadian border to Laurel, Montana
Jayhawk Pipeline, LLC	Throughout Kansas, with branches in Nebraska, Oklahoma and Texas
Conway Pipeline	McPherson, Kansas to Conway, Kansas
Kaw Pipe Line Company	Locations throughout Kansas
Osage Pipe Line Company, LLC (50% owned by CHS McPherson)	Oklahoma to Kansas
Convenience stores/gas stations	34 locations in Minnesota, Montana, North Dakota, South Dakota, and Wyoming, 6 of which are leased
Lubricant plants/warehouses	Three locations in Minnesota, Ohio and Texas, one of which is leased

Ag

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

Grain Marketing

We own 18 grain terminals, which are used in our grain marketing operations, in: Pekin and Peru, Illinois; Davenport, Iowa; Myrtle Grove, Louisiana; Savage and Winona, Minnesota; Collins, Mississippi; Friona, Texas; Superior, Wisconsin; Argentina; Brazil; Hungary; and Romania. We also own one fertilizer terminal in Argentina. In addition to office space at our corporate headquarters, we have 34 grain marketing offices in: Davenport, Iowa; Winona, Minnesota; Lincoln, Nebraska; Argentina; Brazil; Bulgaria; Canada; China; Hungary; Jordan; Paraguay; Romania; Russia; Serbia; Singapore; South Korea; Spain; Switzerland; Taiwan; Ukraine; and Uruguay. We lease all of these grain marketing offices, other than the grain marketing offices in Davenport, Iowa and Winona, Minnesota, which we own.

Country Operations

In our country operations business, we own agri-operations facilities in 466 communities (of which some of the facilities are on leased land), four sunflower plants and eight feed manufacturing facilities. These operations are located in Colorado, Idaho, Illinois, Iowa, Kansas, Michigan, Minnesota, Montana, Nebraska, North Dakota,

Oklahoma, Oregon, South Dakota, Texas, Washington, and Wisconsin.

Table of Contents

Crop Nutrients

We own one deep water port in Galveston, Texas and 18 terminals in: Little Rock, Arkansas; Post Falls, Idaho; Peru, Illinois; Muscatine, Iowa; Melbourne and Owensboro, Kentucky; Lake Providence, Lettsworth, Mermentau, Tallulah and Vidalia, Louisiana; St. Paul and Winona, Minnesota; Greenville, Mississippi; Watertown, South Dakota; Memphis, Tennessee; and Friona and Texarkana, Texas. The facilities located in Little Rock, Arkansas, Owensboro, Kentucky and Galveston, Texas are on leased land.

Processing and Food Ingredients

We own oilseed processing facilities in: Hallock, Fairmont and Mankato, Minnesota. In addition, we own a grain storage facility in Joliette, North Dakota.

Renewable Fuels

We own ethanol plants located in Rochelle and Annawan, Illinois.

Corporate and Other

In addition to the leased office space at our corporate headquarters, we lease two offices in: Kansas City, Missouri; and Huron, South Dakota. We own approximately 11,000 acres of agricultural land and related improvements in central Michigan.

Corporate Headquarters

We are headquartered in Inver Grove Heights, Minnesota. We lease a 24-acre campus consisting of one building with approximately 320,000 square feet of office space and own an additional 9-acres of land adjacent to the leased property on which we have two smaller buildings with approximately 13,400 and 9,000 square feet of space. We also have offices in Eagan, Minnesota and Washington, D.C., which are leased.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

PART II.

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

As a cooperative, we do not have any common stock that is traded or otherwise. We have not sold any equity securities during the three years ended August 31, 2018, that were not registered under the Securities Act of 1933.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The following selected income statement data for the years ended August 31, 2018, 2017, and 2016, and balance sheet data as of August 31, 2018, and 2017, are derived from our audited consolidated financial statements within this Annual Report on Form 10-K. The following selected income statement data for the years ended August 31, 2015, and 2014, and balance sheet data as of August 31, 2016, 2015, and 2014, are derived from unaudited consolidated financial information not included in this Annual Report on Form 10-K and has been restated from previously reported results.

The following table sets forth our selected historical consolidated financial data for each of the five periods indicated. Certain prior period amounts have been restated for the correction of misstatements described below. This information should be read in conjunction with the "Explanatory Note" immediately preceding Item 1 of this Annual Report on Form 10-K, Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Annual Report on Form 10-K and with our consolidated financial statements and Notes thereto included elsewhere in this Annual Report on Form 10-K, including further details related to the misstatements discussed in Note 2, Restatement of Previously Issued Consolidated Financial Statements.

Selected Consolidated Financial Data

	2018	(As Restated) 2017	(As Restated) 2016	(As Restated) 2015	(As Restated) 2014
	(Dollars in thousands)				
Income Statement Data:					
Revenues	$32,683,347	$32,037,426	$30,355,260	$34,517,452	$42,619,712
Cost of goods sold	31,589,887	31,142,766	29,386,515	33,099,955	40,889,181
Gross profit	1,093,460	894,660	968,745	1,417,497	1,730,531
Marketing, general and administrative	674,083	612,007	601,266	642,309	598,965
Reserve and impairment charges (recoveries), net	(37,709)	456,679	75,036	158,771	78,133
Operating earnings (loss)	457,086	(174,026)	292,443	616,417	1,053,433
(Gain) loss on disposal of business	(131,816)	2,190	—	—	—
Interest expense	149,202	171,239	113,704	70,659	147,240
Other (income) loss	(78,015)	(99,951)	(47,609)	(46,752)	(146,472)
Equity (income) loss from investments	(153,515)	(137,338)	(175,777)	(107,850)	(107,446)
Income (loss) before income taxes	671,230	(110,166)	402,125	700,360	1,160,111
Income tax expense (benefit)	(104,076)	(181,124)	19,099	(4,900)	22,226
Net income (loss)	775,306	70,958	383,026	705,260	1,137,885
Net income (loss) attributable to noncontrolling interests	(601)	(634)	(223)	(816)	1,572
Net income (loss) attributable to CHS Inc.	$775,907	$71,592	$383,249	$706,076	$1,136,313
Balance Sheet Data (as of August 31):					
Working capital	$759,034	$148,565	$338,446	$2,650,637	$3,132,548
Net property, plant and equipment	5,141,719	5,356,434	5,488,323	5,192,927	4,180,148
Total assets	16,381,178	15,818,922	17,149,639	15,101,216	15,142,607
Long-term debt, including current maturities	1,930,255	2,179,793	2,297,205	1,478,930	1,603,028
Total equities	8,165,028	7,705,640	7,759,157	7,551,439	6,428,582

Table of Contents

Description of Restatement Adjustments

The categories of restatement adjustments and their impact on previously reported consolidated financial statements for the years ended August 31, 2017, and 2016, are detailed in Note 2, Restatement of Previously Issued Financial Statements contained in the Notes to the consolidated financial statements in this Annual Report on Form 10-K. The categories of restatement adjustments and their impact on previously reported consolidated financial statements for fiscal 2014 and fiscal 2015, and selected balance sheet data as of August 31, 2016, are described below.

(a) Freight Derivatives and Related Misstatements - Corrections for freight derivatives and related misstatements were driven by the intentional misstatement of amounts associated with both the value and quantity of rail freight contracts, as well as due to rail freight contracts and certain non-rail freight contracts not meeting the technical accounting requirements to qualify as derivative financial instruments. In addition to the elimination of the underlying freight derivative assets and liabilities and related impacts on revenues and cost of goods sold, additional adjustments were recorded to account for prepaid freight capacity balances in relevant periods and the impact of a goodwill impairment charge recorded as of May 31, 2015, for goodwill held within our Grain Marketing reporting unit. Additional details related to the impact of the freight derivatives and related misstatements and their impact on each period are discussed in restatement reference (a).

(b) Intercompany Misstatements - As a result of the work performed in relation to the freight misstatement, additional misstatements related to the elimination of intercompany balances were also identified and corrected within the consolidated financial statements. Certain of these intercompany misstatements resulted in a misstatement of various financial statement line items; however, the intercompany misstatements did not result in a material misstatement of income (loss) before income taxes or net income (loss). Additional details related to the impact of the intercompany misstatements and their impact on each period are discussed in restatement reference (b).

(c) Other Misstatements - We made adjustments for other previously identified misstatements unrelated to the freight derivatives and related misstatements that were not material, individually or in the aggregate, to our consolidated financial statements. These other misstatements related primarily to certain misclassifications, adjustments to revenues and cost of goods sold, and adjustments to various income tax and indirect tax accrual accounts. Additional details related to the impact of the other misstatements and their impact on each period are discussed in restatement reference (c).

	As of August 31, 2016			
	As Previously Reported	Restatement Adjustments	As Restated	Restatement References
	(Dollars in thousands)			
Balance Sheet Data:				
Working capital	$414,385	$ (75,939)	$ 338,446	a, b, c
Net property, plant and equipment	5,488,323	—	5,488,323	
Total assets	17,312,135	(162,496)	17,149,639	a, b, c
Long-term debt, including current maturities	2,297,205	—	2,297,205	
Total equities	7,866,250	(107,093)	7,759,157	a, b, c

Balance Sheet Data as of August 31, 2016

Freight derivatives and related misstatements

(a) The correction of freight derivatives and related misstatements resulted in an $83.6 million reduction of working capital, a $178.7 million reduction of total assets, and a $115.7 million reduction of total equities. The reductions of working capital, total assets and total equities related primarily to the elimination of $169.5 million of current derivative assets that had been recorded as assets on the Consolidated Balance Sheet. The related decreases of working capital and total equities were partially offset by several related adjustments, including a $58.4 million reduction of current derivative liabilities, a $5.6 million increase of prepaid income taxes, a $20.7 million decrease of accrued income taxes and a $15.9 million increase of long-term deferred tax liabilities associated with the income tax impact of the freight misstatement. The decrease of total assets also included an approximate $16.0 million reduction of goodwill that resulted from a goodwill impairment recorded during fiscal 2015, which was partially offset by the recognition of a $1.3 million prepaid freight capacity balance.

Table of Contents

Intercompany misstatements

(b) The correction of intercompany misstatements resulted in a $12.1 million increase of working capital, a $21.2 million reduction of total assets, and a $12.1 million increase of total equities due to different practices of eliminating intercompany balances between CHS's businesses which existed in previous periods. The decreases of working capital and total equities related primarily to $4.4 million reduction of accounts payable and a $7.7 million reduction of dividends and equities payable that resulted from timing differences. The decrease of total assets related primarily to a $6.2 million decrease of accounts receivable, a $12.1 million decrease of current derivative assets, and a $6.4 million decrease of margin deposits, which were partially offset by a $2.8 million increase of inventories with offsetting adjustments to current liabilities.

Other misstatements

(c) The correction of other misstatements resulted in a $4.4 million decrease of working capital, a $37.4 million increase of total assets, and a $3.5 million decrease of total equities. Several misclassification adjustments were made between working capital accounts; however, the decreases of working capital and total equities were driven by adjustments to certain income tax balances, including a $9.1 million decrease of prepaid income taxes and a $20.7 million increase of accrued income taxes, which were partially offset by the correction of other misstatements, including a $27.9 million reduction of dividends and equities payable that had been included from the accrual balance as the result of a timing difference. The increase of total assets relates primarily to a $39.4 million increase of inventory with a corresponding increase to accounts payable that resulted from a misclassification adjustment for an accounts payable balance that had previously been classified as a contra-inventory balance.

Table of Contents

	For the Year Ended August 31, 2015			For the Year Ended August 31, 2014			
	As Previously Reported	Restatement Adjustments	As Restated	As Previously Reported	Restatement Adjustments	As Restated	Restatement References
	(Dollars in thousands)						
Revenues	$34,582,442	$(64,990)	$34,517,452	$42,664,033	$(44,321)	$42,619,712	a, b, c
Cost of goods sold	33,091,676	8,279	33,099,955	41,011,487	(122,306)	40,889,181	a, b, c
Gross profit	1,490,766	(73,269)	1,417,497	1,652,546	77,985	1,730,531	
Marketing, general and administrative	642,309	—	642,309	598,965	—	598,965	
Reserve and impairment charges (recoveries), net	133,045	25,726	158,771	3,633	74,500	78,133	a, c
Operating earnings (loss)	715,412	(98,995)	616,417	1,049,948	3,485	1,053,433	
Interest expense	70,659	—	70,659	147,240	—	147,240	
Other (income) loss	(15,565)	(31,187)	(46,752)	(121,149)	(25,323)	(146,472)	c
Equity (income) loss from investments	(107,850)	—	(107,850)	(107,446)	—	(107,446)	
Income (loss) before income taxes	768,168	(67,808)	700,360	1,131,303	28,808	1,160,111	
Income tax expense (benefit)	(12,165)	7,265	(4,900)	48,296	(26,070)	22,226	a, c
Net income (loss)	780,333	(75,073)	705,260	1,083,007	54,878	1,137,885	
Net income (loss) attributable to noncontrolling interests	(712)	(104)	(816)	1,572	—	1,572	
Net income (loss) attributable to CHS Inc.	$781,045	$(74,969)	$706,076	$1,081,435	$54,878	$1,136,313	
Balance Sheet Data (as of August 31):							
Working capital	$2,751,949	$(101,312)	$2,650,637	$3,168,512	$(35,964)	$3,132,548	a, c
Net property, plant and equipment	5,192,927	—	5,192,927	4,180,148	—	4,180,148	
Total assets	15,226,125	(124,909)	15,101,216	15,293,507	(150,900)	15,142,607	a, c
Long-term debt, including current maturities	1,428,930	50,000	1,478,930	1,603,028	—	1,603,028	c
Total equities	7,669,411	(117,972)	7,551,439	6,466,844	(38,262)	6,428,582	a, c

For the year ended August 31, 2015

Freight derivatives and related misstatements
(a) The correction of freight derivatives and related misstatements resulted in a $67.8 million reduction of income before income taxes and a $56.0 million reduction of net income. The decreased income before income taxes and net income were primarily the result of a $42.5 million increase of cost of goods sold and an increase of reserve and impairment charges related to a goodwill impairment charge of approximately $16.0 million within our Grain Marketing reporting unit following a reassessment of the goodwill balance as of May 31, 2015. The remaining adjustment to income before income taxes relates to a $9.0 million decrease of revenues that should have been recorded during fiscal 2014 and the remaining adjustment to net income relates to an $11.8 million decrease of income tax expense resulting from the tax effect of the freight derivatives and related misstatements.

Intercompany misstatements
(b) The correction of intercompany misstatements had no impact on income (loss) before income taxes or net income (loss); however, the correction resulted in a $37.9 million decrease of both revenues and cost of goods sold due to different practices of eliminating intercompany sales between CHS's businesses which existed in previous periods.

Table of Contents

Other misstatements
(c) The correction of other misstatements had no impact on income (loss) before income taxes; however, a $19.1 million reduction of net income resulted from the correction of income tax misstatements. The incremental income taxes of $19.1 million were recorded to adjust for the impact of income tax items that had previously been identified and recorded as out of period adjustments in subsequent periods. Additionally, certain misclassification adjustments were made between line items included in the Consolidated Statements of Operations primarily due to the application of differing accounting policies between businesses, including an $18.1 million decrease of revenues, a $3.7 million increase of cost of goods sold, a $9.4 million increase of reserve and impairment charges, net and a $31.2 million increase of other income.

Balance Sheet Data as of August 31, 2015

Freight derivatives and related misstatements
(a) The correction of freight derivatives and related misstatements resulted in an $88.7 million reduction of working capital, a $141.6 million reduction of total assets, and a $104.6 million reduction of total equities. The reductions of working capital, total assets and total equities related primarily to the elimination of $132.0 million of current derivative assets that had been recorded as assets on the Consolidated Balance Sheet. The decreases of working capital and total equities were partially offset by several related adjustments, including a $32.5 million reduction of current derivative liabilities, a $5.5 million reduction of income taxes payable that resulted from the freight misstatement and the recognition of a $5.4 million prepaid freight capacity balance. In addition to the reductions of current assets, the decrease of total assets also included an approximate $16.0 million reduction of goodwill associated with a goodwill impairment recorded during fiscal 2015.

Intercompany misstatements
(b) None

Other misstatements
(c) The correction of other misstatements resulted in a $12.7 million decrease of working capital, a $16.7 million increase of total assets, a $50.0 million increase of long-term debt, including current maturities and a $13.4 million decrease of total equities. The decrease of working capital related primarily to a $13.5 million increase of dividends and equities payable that had been excluded from the accrual balance as the result of a timing difference. The $16.7 million increase of total assets related to a timing difference associated with the application of in-transit cash and receivables that had resulted in a $13.9 million understatement of cash and a $2.8 million understatement of receivables (with the offsetting entries impacting customer advance payments and accounts payable). The $50.0 million increase of long-term debt, including current maturities related to a misclassification adjustment for certain notes payable balances to their appropriate classification as long-term debt (including current portion). The $13.4 million decrease of total equities related primarily to the $13.5 million timing difference associated with the accrual of dividends and equities payable described above.

For the year ended August 31, 2014

Freight derivatives and related misstatements
(a) The correction of freight derivatives and related misstatements resulted in a $28.8 million increase of income before income taxes and a $17.8 million increase of net income. The increased income before income taxes was primarily the result of a $19.8 million decrease of cost of goods sold and a $9.0 million increase of revenues that had been incorrectly recognized during fiscal 2015. The increased net income resulted primarily from the increase of income before income taxes, which was partially offset by an $11.0 million increase of income tax expense related to the tax effect of the freight derivatives and related misstatements.

Intercompany misstatements
(b) The correction of intercompany misstatements had no impact on income (loss) before income taxes or net income (loss); however, the correction resulted in a $35.6 million decrease of both revenues and cost of goods sold due to different practices of eliminating intercompany sales between CHS's businesses which existed in previous periods.

Other misstatements
(c) The correction of other misstatements had no impact on income (loss) before income taxes; however, the correction of certain tax items that resulted in an income tax benefit of $37.1 million and a corresponding increase of net income. The income tax benefit of $37.1 million was recorded to adjust for the impact of income tax items that had previously been recorded as out of period adjustments in subsequent periods. In addition to the income tax adjustment, certain

Table of Contents

misclassification adjustments were made between line items included in the Consolidated Statements of Operations primarily due to the application of differing accounting policies between businesses. These misclassification adjustments resulted in a $17.7 million decrease of revenues, a $66.9 million decrease of cost of goods sold, a $74.5 million increase of reserve and impairment charges (recoveries), net and a $25.3 million increase of other income.

Balance Sheet Data as of August 31, 2014

Freight derivatives and related misstatements
(a) The correction of freight derivatives and related misstatements resulted in a $22.6 million reduction of working capital, a $150.9 million reduction of total assets, and a $49.9 million reduction of total equities. The reductions of working capital, total assets and total equities related primarily to the elimination of $224.5 million of current derivative assets that had been incorrectly recorded as assets on the Consolidated Balance Sheet. The decreases of working capital and total equities were partially offset by several related adjustments, including a $109.5 million reduction of current derivative liabilities, the recognition of a $62.8 million prepaid freight capacity balance, the recognition of a $10.8 million accounts receivable balance and a $20.1 million reduction of income taxes payable.

Intercompany misstatements
(b) None

Other misstatements
(c) The correction of other misstatements resulted in a $13.4 million decrease of working capital and an $11.7 million increase of total equities. The decrease of working capital and increase of total equities related to a $7.5 million increase of dividends and equities payable that had been excluded from the accrual balance as the result of a timing difference and an increased income tax accrual of $5.9 million that resulted from income tax items that had been previously recorded as out of period adjustments in subsequent periods.

Table of Contents

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide a reader of our financial statements with a narrative from the perspective of management on our financial condition and results of operations, liquidity and certain other factors that may affect our future results. Our MD&A is presented in the following sections:

- Restatement
- Overview
- Business Strategy
- Fiscal 2018 Highlights
- Fiscal 2019 Priorities
- Fiscal 2019 Outlook
- Results of Operations
- Liquidity and Capital Resources
- Off Balance Sheet Financing Arrangements
- Contractual Obligations
- Critical Accounting Estimates
- Effect of Inflation and Foreign Currency Transactions
- Recent Accounting Pronouncements

Our MD&A should be read in conjunction with the accompanying audited financial statements and notes to those financial statements and the Cautionary Statement regarding forward-looking statements found in Part I, Item 1A of this Annual Report on Form 10-K.

Restatement

The accompanying MD&A gives effect to certain adjustments made to our previously reported consolidated financial statements for the years ended August 31, 2017 and 2016. Due to the restatement of these periods, the data set forth in the accompanying MD&A may not be comparable to discussions and data included in our previously filed Annual Report on Form 10-K for fiscal 2017.

Refer to the "Explanatory Note" immediately preceding Item 1 of this Annual Report on Form 10-K, and Note 2, Restatement of Previously Issued Consolidated Financial Statements and Note 18, Quarterly Financial Information (Unaudited) of the accompanying audited financial statements for further details related to the restatement and its impact on our consolidated financial statements.

Overview

CHS Inc. is a diversified company that provides grain, foods and energy resources to businesses and consumers on a global scale. As a cooperative, we are owned by farmers, ranchers and member cooperatives across the United States. We also have preferred shareholders that own our five series of preferred stock, all of which are listed and traded on the Nasdaq Global Select Market. We operate in the following three reportable segments:

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

- Nitrogen Production - consists solely of our equity method investment in CF Nitrogen and produces and distributes nitrogen fertilizer, a commodity chemical.

In addition, our financing and hedging operations along with our non-consolidated wheat milling and food production and distribution joint ventures, have been aggregated within Corporate and Other. Prior to its sale on May 4, 2018, our insurance operations were also included within Corporate and Other.

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

Table of Contents

Corporate administrative expenses and interest are allocated to each reportable segment, along with Corporate and Other, based on direct usage for services, such as information technology, legal and other factors or considerations relevant to the costs incurred.

Management's Focus. When evaluating our operating performance, management focuses on gross profit and income (loss) before income taxes ("IBIT"). As a company that operates heavily in global commodities, there is significant unpredictability and volatility in pricing, costs and global trade volumes. As such, we focus on managing the margin we can earn and the resulting income before income taxes. Management also focuses on ensuring the strength of the balance sheet through the appropriate management of financial liquidity, leverage, capital allocation and cash flow optimization.

Seasonality. Many of our business activities are highly seasonal and our operating results vary throughout the year. Our revenues and income generally trend lower during the second and fourth fiscal quarters and higher during the first and third fiscal quarters. For example, in our Ag segment, our crop nutrients and country operations businesses generally experience higher volumes and income during the fall harvest and spring planting season, which correspond to our first and third fiscal quarters, respectively. Our grain marketing operations are also subject to fluctuations in volume and earnings based on producer harvests, world grain prices, demand and global trade volumes. 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 by our agricultural producers is highest and is subject to global supply and demand forces. Other energy products, such as propane, also generally experience higher volumes and profitability during the winter heating and fall crop drying seasons. The graphs below depict the seasonality inherent in our business.
* Note that the third quarter of fiscal 2017 was impacted by significant charges that caused IBIT for that period to deviate from historical trends.

Table of Contents

Pricing. Our revenues, assets and cash flows can be significantly affected by global market prices for commodities such as petroleum products, natural gas, grains, oilseed products and crop nutrients. 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, availability/adequacy of supply of the related commodity, government regulations/policies, world events, global trade disputes and general political/economic conditions.

Business Strategy

Our business strategy is to help our owners grow by maximizing returns and optimizing our various operations to ensure that our core businesses are strategically positioned today and for the future. We are focusing on improving efficiency and, when necessary, disposing of assets that are not strategic and/or do not meet our internal measurement expectations. We are also focused on maintaining financial flexibility by optimizing debt levels and ensuring adequate financial liquidity so we can effectively operate throughout the agriculture and energy economic cycles.

Fiscal 2018 Highlights

- Throughout fiscal 2018 we experienced higher crack spreads and favorable crude oil discounts that resulted in significantly improved margins and results in our Energy segment.
- We completed the disposal of certain assets primarily within our Energy segment and Corporate and Other resulting in cash proceeds of approximately $234.9 million and a gain of approximately $131.8 million recognized during the first, second, and third quarters of fiscal 2018. The cash proceeds were used to optimize our debt levels by reducing our need for incremental debt and minimizing existing funded debt.
- In the second quarter of fiscal 2018, we experienced a significant tax benefit through the revaluation of our U.S. net deferred tax liability resulting from the enactment of the Tax Cuts and Jobs Act of 2017 (the "Tax Act").

Fiscal 2019 Priorities

- Strengthening and improving our internal control environment.
- Enhancing owner experience through deeper relationships, including seamless interactions with us through the use of more effective technology solutions.
- A continued emphasis on sharpening our operational excellence by equipping our employees to develop needed expertise to serve CHS owners, improve processes, adapt to change and embrace diversity.
- Drive enterprise business growth by focusing on our core businesses, continuing to improve efficiency in all that we do and earning higher market share.

Fiscal 2019 Outlook

Our Ag and Energy businesses operate in cyclical environments. The Energy industry began recovering in fiscal 2018 with higher crack spreads and favorable crude oil discounts that led to higher margins and improved earnings. We expect that these favorable market fundamentals experienced throughout fiscal 2018 will continue to support strong earnings in our Energy business during fiscal 2019. The Ag industry, however, continues to operate in a challenging environment characterized by lower margins, reduced liquidity and increased leverage that have resulted from reduced commodity prices. In addition, trade relations between the United States and foreign trade partners, particularly those that purchase large quantities of agricultural commodities, are strained resulting in unpredictable impacts to commodity prices within the Ag industry now and in the future. We are unable to predict how long the current environment will last or how severe it will ultimately be at this time. As a result, we expect our revenues, margins and

cash flows to continue to be under pressure during fiscal 2019.

Table of Contents

Results of Operations

Consolidated Statements of Operations

	For the Years Ended August 31,		
		(As Restated)	(As Restated)
	2018	2017	2016
	(Dollars in thousands)		
Revenues	$32,683,347	$32,037,426	$30,355,260
Cost of goods sold	31,589,887	31,142,766	29,386,515
Gross profit	1,093,460	894,660	968,745
Marketing, general and administrative	674,083	612,007	601,266
Reserve and impairment charges (recoveries), net	(37,709)	456,679	75,036
Operating earnings (loss)	457,086	(174,026)	292,443
(Gain) loss on disposal of business	(131,816)	2,190	—
Interest expense	149,202	171,239	113,704
Other (income) loss	(78,015)	(99,951)	(47,609)
Equity (income) loss from investments	(153,515)	(137,338)	(175,777)
Income (loss) before income taxes	671,230	(110,166)	402,125
Income tax expense (benefit)	(104,076)	(181,124)	19,099
Net income (loss)	775,306	70,958	383,026
Net income (loss) attributable to noncontrolling interests	(601)	(634)	(223)
Net income (loss) attributable to CHS Inc.	$775,907	$71,592	$383,249

The charts below detail revenues, net of intersegment revenues, and IBIT by reportable segment for fiscal 2018. Our Nitrogen Production reportable segment represents an equity method investment, and as such records earnings and allocated expenses but not revenue.

Table of Contents

Energy Segment Operating Metrics

Our Energy segment operations primarily include our Laurel, Montana and McPherson, Kansas refineries, which process crude oil to produce refined products, including gasoline, distillates and other products. The following tables provide information about our consolidated refinery operations.

	For the Years Ended August 31,		
	2018	2017	2016
Refinery throughput volumes	(Barrels per day)		
Heavy, high-sulfur crude oil	84,339	83,787	64,104
All other crude oil	66,785	69,980	72,115
Other feedstocks and blendstocks	17,713	14,184	16,719
Total refinery throughput volumes	168,837	167,951	152,938
Refined fuel yields			
Gasolines	86,115	86,105	79,483
Distillates	65,060	65,738	57,650

We are subject to the Renewable Fuels Standard ("RFS"), which requires refiners to blend renewable fuels (e.g., ethanol, biodiesel) into their finished transportation fuels or purchase renewable energy credits, known as Renewable Identification Numbers ("RINs"), in lieu of blending. The Environmental Protection Agency generally establishes new annual renewable fuel percentage standards for each compliance year in the preceding year. We generate RINS under the RFS in our renewable fuels operations and through our blending activities at our terminals; but we cannot generate enough RINs to meet the needs of our refining capacity and RINs must be purchased on the open market. The price of RINs can be volatile and can impact profitability.

In addition to our internal operational reliability, the profitability of our Energy segment is largely driven by crack spreads (e.g., the price differential between refined products and inputs such as crude oil), which are driven by the supply and demand of refined product markets. Crack spreads continued to improve during fiscal 2018 compared to the two prior fiscal years as a result of the tightening supply and demand in the global and North American refined product markets. The table below provides information about the average market reference prices and differentials that impact our Energy segment.

	For the Years Ended August 31,		
	2018	2017	2016
Market indicators			
West Texas Intermediate (WTI) crude oil (dollars per barrel)	$62.23	$49.03	$41.50
WTI - Western Canadian Select (WCS) crude oil differential (dollars per barrel)	$17.92	$12.90	$14.13
Group 3 2:1:1 crack spread (dollars per barrel)*	$19.08	$14.21	$13.17
Group 3 5:3:2 crack spread (dollars per barrel)*	$18.46	$14.01	$13.10
D6 ethanol RIN (dollars per RIN)	$0.5280	$0.7214	$0.6783
D4 ethanol RIN (dollars per RIN)	$0.7221	$1.0352	$0.7621

* Group 3 refers to the oil refining and distribution system serving the Midwest markets from the Gulf Coast through the Plains States.

Income (Loss) Before Income Taxes by Segment

Energy

	For the Years Ended August 31,			2018 vs. 2017		2017 vs. 2016	
	2018	(As Restated) 2017	(As Restated) 2016	$ Change	% Change	$ Change	% Change
	(Dollars in thousands)						
Income (loss) before income taxes	$452,108	$ 61,118	$273,375	$390,990	639.7 %	$(212,257)	(77.6)%

Table of Contents

The following table and commentary present the primary reasons for the changes in IBIT for the Energy segment for each of the years ended August 31, 2018, and 2017, compared to the prior year:

	2018 vs. 2017	2017 vs. 2016
	(Dollars in millions)	
Volume	$(8)	$15
Price	255	(99)
Transportation, retail and other	60	(67)
Change in reserves and impairments, net+	33	(33)
Non-gross profit related activity+	51	(28)
Total change in Energy IBIT	$391	$(212)

+ See commentary related to these changes in the marketing, general and administrative expenses, reserve and impairment charges (recoveries), net, (gain) loss on disposal of business, interest expense, other income (loss) and equity (income) loss from investments sections of this Results of Operations.

Comparison of Energy segment IBIT for the years ended August 31, 2018, and 2017

The $391.0 million increase in the Energy segment IBIT for fiscal 2018 reflects the following:

- Improved market conditions throughout fiscal 2018 in our refined fuels business, mostly due to higher crack spreads and associated higher margins. These benefits were partially offset by planned major maintenance activities at our Laurel, Montana refinery during May 2018 and a reduction of cost of goods sold ("COGS") during fiscal 2017 resulting from the benefit of certain manufacturing changes in our propane business that did not reoccur in fiscal 2018.
- Gains totaling $65.9 million recorded in other income in connection with the sale of certain assets during the third quarter of fiscal 2018, including the sale of 34 Zip Trip stores located in the Pacific Northwest, United States ("Pacific Northwest") and the sale of the Council Bluffs pipeline and refined fuels terminal in Council Bluffs, Iowa.
- A benefit of $19.1 million recognized during the third quarter of fiscal 2018 associated with the small refinery exemption for our Laurel, Montana refinery.
- An impairment charge of $32.7 million was recorded during the third quarter of fiscal 2017 related to the cancellation of a capital project which did not reoccur in fiscal 2018.

Comparison of Energy segment IBIT for the years ended August 31, 2017, and 2016

The $212.3 million decrease in the Energy segment IBIT for fiscal 2017 reflects the following:

- Significantly reduced margins within refined fuels caused by a down cycle in the energy industry throughout fiscal 2017, which drove prices lower, partially offset by increases in propane margins driven by certain manufacturing changes. The lower margins in our refined fuels business were partially offset by higher demand for energy products, which caused volumes to increase (most significantly in refined fuels).
- A $32.7 million impairment charge associated with the cancellation of a capital project during the third quarter of fiscal 2017.
- On November 23, 2016, the EPA released the final renewable fuel mandate for calendar year 2017, and as a result the market price for RINs increased in the first quarter of fiscal 2017.

Ag

For the Years Ended August 31, 2018	2018 vs. 2017 $ Change	2017 vs. 2016 $ Change	% Change

		(As Restated) 2017	(As Restated) 2016		% Change		
	(Dollars in thousands)						
Income (loss) before income taxes	$74,258	$(270,161)	$15,252	$344,419	127.5 %	$(285,413)	(1,871.3)%

Table of Contents

The following table and commentary present the primary reasons for the changes in IBIT for the Ag segment for each of the years ended August 31, 2018, and 2017, compared to the prior year:

	2018 vs. 2017	2017 vs. 2016
	(Dollars in millions)	
Volume	$3	$3
Price	(83)	74
Change in reserves and impairments, net+	452	(441)
Non-gross profit related activity+	(28)	79
Total change in Ag IBIT	$344	$(285)

+ See commentary related to these changes in the marketing, general and administrative expenses, reserve and impairment charges (recoveries), net, (gain) loss on disposal of business, interest expense, other income (loss) and equity (income) loss from investments sections of this Results of Operations.

Comparison of Ag segment IBIT for the years ended August 31, 2018, and 2017

The $344.4 million increase in Ag segment IBIT for fiscal 2018 reflects the following:

- Significant reserve and impairment charges that were recorded during fiscal 2017, the most significant of which related to charges of $229.4 million recorded during the third quarter of fiscal 2017 in association with a trading partner in our Brazilian operations entering bankruptcy-like proceedings under Brazilian law. These reserve and impairment charges did not reoccur in fiscal 2018.
- We had previously recorded certain reserves and impairments in fiscal 2017 as disclosed in the reserves and impairment charges (recoveries), net portion of the management discussion and analysis. During fiscal 2018, we were able to recover $37.7 million of these reserves and impairments by receiving higher than expected sale prices on certain assets and insurance proceeds, including $3.8 million during the first quarter of fiscal 2018, $11.3 million during the second quarter of fiscal 2018, $3.8 million during the third quarter of fiscal 2018 and $18.8 million during the fourth quarter of fiscal 2018.
- Impairments of $26.3 million related to international investments during the fourth quarter of fiscal 2018 that we have exited or are in the process of exiting.
- Decreased margins across multiple businesses in the Ag segment throughout fiscal 2018, as a result of lower demand and uncertainties primarily associated with international trade, which were partially offset by increased margins within our processing and food ingredients business that have resulted from lower input costs; particularly in the third quarter of fiscal year 2018.

Comparison of Ag segment IBIT for the years ended August 31, 2017, and 2016

The $285.4 million decrease in Ag segment IBIT for fiscal 2017 reflects the following:

- Grain marketing IBIT decreased primarily due to charges of $229.4 million during the third quarter of fiscal 2017 associated with a trading partner in our Brazilian operations entering bankruptcy-like proceedings under Brazilian law. Grain marketing also experienced impairments within certain international investments of $20.2 million during the fourth quarter of fiscal 2017 due to persistent underperformance, partially offset by slightly higher grain volumes and associated margins.
- Country operations IBIT decreased primarily due to changes in reserves related to a single producer borrower of $81.0 million along with $30.4 million of long-lived asset impairments, most of which were recorded during the second quarter of fiscal 2017. These impairments were significantly offset by higher grain margins and volumes.
-

A decrease in processing and food ingredients IBIT primarily caused by long-lived asset impairment charges of $80.1 million during the third and fourth quarters of fiscal 2017 that exceeded the prior year's non-recurring bad debt charge related to a specific customer. Higher margins partially offset this decrease.

- Increased crop nutrients and renewable fuels IBIT, driven primarily by higher volumes and margins.

Table of Contents

All Other Segments

	For the Years Ended August 31,			2018 vs. 2017		2017 vs. 2016	
	2018	(As Restated) 2017	(As Restated) 2016	$ Change	% Change	$ Change	% Change
	(Dollars in thousands)						
Nitrogen Production IBIT*	$38,838	$ 29,741	$ 34,070	$9,097	30.6 %	$(4,329)	(12.7)%
Corporate and Other IBIT	$106,026	$ 69,136	$ 79,428	$36,890	53.4 %	$(10,292)	(13.0)%

* See Note 5, Investments, of the notes to the consolidated financial statements that are included in this Annual Report on Form 10-K for additional information.

Comparison of All Other Segments IBIT for the years ended August 31, 2018, and 2017

Our Nitrogen Production segment IBIT increased as a result of significantly higher equity method income throughout fiscal 2018 attributed to increased sale prices of urea and UAN, which are produced and sold by CF Nitrogen. Fiscal 2017 also included a gain of $30.5 million associated with an embedded derivative asset inherent in the agreement relating to our investment in CF Nitrogen, of which $29.1 million was recognized during the first quarter of fiscal 2017. The gain was solely responsible for the income in our Nitrogen Production segment in fiscal 2017 and there was no comparable gain in fiscal 2018. Corporate and Other IBIT increased primarily as a result of the $58.2 million gain recognized on the sale of CHS Insurance during the third quarter of fiscal 2018 which was partially offset by lower earnings from our investments in Ventura Foods and Ardent Mills, and our CHS Capital and CHS Insurance businesses.

Comparison of All Other Segments IBIT for the years ended August 31, 2017, and 2016

Our Nitrogen Production segment IBIT decreased as a result of lower equity method income caused by downward pressures on the pricing of urea and UAN throughout fiscal 2017. This decrease was partially offset by a gain of $30.5 million in fiscal 2017 associated with an embedded derivative asset inherent in the agreement relating to our investment in CF Nitrogen for which there was no comparable gain in the prior fiscal year, including $29.1 million that was recognized during the first quarter of fiscal 2017. Corporate and Other IBIT decreased due to lower margins resulting from pricing pressure from customers in our investment in Ventura Foods, which was partially offset by improved equity method earnings from our investment in Ardent Mills.

Revenues by Segment

Energy

	For the Years Ended August 31,			2018 vs. 2017		2017 vs. 2016	
	2018	(As Restated) 2017	(As Restated) 2016	$ Change	% Change	$ Change	% Change
	(Dollars in thousands)						
Revenues	$7,589,119	$6,227,838	$5,408,879	$1,361,281	21.9 %	$818,959	15.1 %

The following table and commentary present the primary reasons for the changes in revenue, net of intersegment revenues, for the Energy segment for each of the years ended August 31, 2018, and 2017, compared to the prior year:

2018 vs.	2017 vs.

	2017	2016
	(Dollars in millions)	
Volume	$(84)	$223
Price	1,449	622
Transportation, retail and other	(4)	(26)
Total change in Energy revenues	$1,361	$819

Comparison of Energy segment revenues for the years ended August 31, 2018, and 2017

The $1.4 billion increase in Energy revenues for fiscal 2018 reflects the following:

- Refined fuels revenues rose $1.2 billion (24%), primarily driven by an increase in the net average selling price ($1.3 billion), which was partially offset by a decrease in volumes ($51.3 million). The selling price of refined fuels products increased an average of $0.41 (25%) per gallon and sales volumes decreased 1% compared to the previous year.

Table of Contents

- Propane revenues increased $177.6 million (30%), of which $176.3 million was attributable to a $0.21 (30%) per gallon increase in the net average selling price compared to the prior year, as well as a $1.4 million (0.2%) increase attributable to slightly higher volumes.

Comparison of Energy segment revenues for the years ended August 31, 2017, and 2016

The $819.0 million increase in Energy revenues for fiscal 2017 reflects the following:

- Refined fuels revenues rose $724.7 million (17%), of which $517.0 million related to an increase in the net average selling price and $207.8 million related to higher sales volumes compared to the prior year. The selling price of refined fuels products increased an average of $0.16 (11%) per gallon, and sales volumes increased 5%, compared to the previous year.
- Propane revenues increased $112.2 million (24%), of which $105.3 million was attributable to a rise in the net average selling price and $6.9 million was attributable to higher volumes. Propane sales volume increased 1% and the average selling price of propane increased $0.12 (22%) per gallon, when compared to the previous year.

Ag

	For the Years Ended August 31,			2018 vs. 2017		2017 vs. 2016	
	2018	(As Restated) 2017	(As Restated) 2016	$ Change	% Change	$ Change	% Change
	(Dollars in thousands)						
Revenues	$25,037,481	$25,718,428	$24,856,018	$(680,947)	(2.6)%	$862,410	3.5 %

The following table and commentary present the primary reasons for the changes in revenues, net of intersegment revenues, for the Ag segment for each of the years ended August 31, 2018, and 2017, compared to the prior year:

	2018 vs. 2017	2017 vs. 2016
	(Dollars in millions)	
Volume	$(522)	$858
Price	(159)	4
Total change in Ag revenues	$(681)	$862

Comparison of Ag segment revenues for the years ended August 31, 2018, and 2017

The $680.9 million decrease in Ag segment revenues for fiscal 2018 reflects the following:

- Grain and oilseed revenues decreased by $757.0 million as a result of a 4% decline in volumes while average sales prices remained flat on a year-over-year basis. The decrease in volumes was primarily due to uncertainty associated with international trade.
- Renewable fuels revenues decreased $99.9 million as the result of a 9% decline in volumes, which was partially offset by an average sales price increase of 2%. The decrease in volumes was due to lower exports and the higher average sales price was driven by higher prices experienced during the first and second quarters of fiscal 2018.
- The decreases in grain and oilseed and renewable fuels revenues were partially offset by a $160.4 million increase in crop nutrients revenue. The increased revenues within crop nutrients resulted from an 8% increase in crop nutrient prices and slightly increased volumes. Higher crop nutrient prices were driven by improved market conditions characterized by less oversupply in the market and the increased volumes were primarily the result of supply chain management improvements and improved market conditions compared to the prior year.

- Increased processing and food ingredients revenues of $8.5 million and increased feed and farm supplies revenue of $7.1 million also partially offset the decreased grain and oilseed and renewable fuels revenues. Processing and food ingredients and feed and farm supplies increased as a result of higher volumes; however, price declines of 13% in processing and food ingredients and 5% in feed and farm supplies offset most of the volume increases.

Table of Contents

Comparison of Ag segment revenues for the years ended August 31, 2017, and 2016

The $862.4 million increase in Ag segment revenues for fiscal 2017 reflects the following:

- Grain and oilseed revenues increased by $1.4 billion (8%), which was attributable to $612.1 million associated with higher average grain selling prices and an $819.7 million increase in volumes. The increase in volumes was due to the large U.S. crop production, while the rise in average sales price was primarily due to higher spring wheat and soybean prices.
- Our processing and food ingredients revenues decreased $201.3 million, primarily due to a $181.1 million decline resulting from the prior-year sale of an international location during the third quarter of fiscal 2016 which contributed to the overall decline in volumes of $274.7 million (17%). An average sales price increase of $0.75 (6%) per unit related to processed oilseed commodities helped to partially offset the decreases associated with volume declines.
- Wholesale crop nutrient revenues decreased $185.2 million due to lower average fertilizer selling prices of $508.4 million, partially offset by higher volumes of $323.2 million. Our wholesale crop nutrient volumes increased 15% and the average sales price of all fertilizers sold reflected a decrease of 21% per ton compared to the prior year. The increase in volumes was due to improved market demand from the prior year as well as supply chain management improvements.
- Our renewable fuels revenues from our marketing and production operations decreased $7.3 million primarily as the result of 4% lower volumes, partially offset by an increased average sales price of $0.06 (4%) per gallon resulting from market supply and demand forces. The decrease in volumes was due to lower exports.
- The remaining Ag segment product revenues, related primarily to feed and farm supplies, decreased $175.5 million mainly due to reduced country operations retail sales and a decline in plant food and sunflower pricing. The decreases were partially offset by increases in diesel sold as a result of higher grain movement and a rise in propane sold for home heating and crop drying.

All Other Segments

	For the Years Ended August 31,			2018 vs. 2017		2017 vs. 2016	
	2018	(As Restated) 2017	(As Restated) 2016	$ Change	% Change	$ Change	% Change
	(Dollars in thousands)						
Corporate and Other revenues*	$56,747	$91,160	$90,363	$(34,413)	(37.8)%	$797	0.9 %

* Our Nitrogen Production reportable segment represents an equity method investment, and as such records earnings and allocated expenses, but not revenues.

Comparison of All Other Segments revenues for the years ended August 31, 2018, and 2017

Corporate and Other revenues decreased primarily as a result of the sale of loans receivable during the majority of fiscal 2018 within the CHS Capital business, as well as the sale of CHS Insurance in May 2018.

Comparison of All Other Segments revenues for the years ended August 31, 2017