



THE ESSENTIALS

2016 CHS ANNUAL REPORT





OUR VISION

To be a globally integrated energy, grains and foods system innovatively linking producers to consumers.

OUR MISSION

To grow company profitability and stakeholder value.

OUR VALUES

At CHS, our values include a tradition of partnership and shared success. We build lasting and mutually rewarding customer relationships. We manage our business safely and with the highest integrity. We're responsible stewards in our communities. Just as importantly, we value our people and their innovative spirit.

Front cover: Top, Jon and Kim Chamberlain, with children Trent, Tyler and Ashlynn, farm near Geneseo, Ill., and are members of River Valley Cooperative, Davenport, Iowa. They deliver corn to the CHS Annawan, Ill., ethanol plant. Middle, Driver Brian Bultmann of Cooperative Energy, Sibley, Iowa, makes a propane delivery to a southern Minnesota hog operation. Bottom, Consultant Jacob Hagen, right, CHS Prairie Lakes, Starbuck, Minn., helps producer Dan Larson, Cyrus, Minn., get best results from his corn crop.

Above: Top, in Renville, Minn., Co-op Country Farmers Elevator employees, from left, Joe Hennen, Sandra Refsland, Craig Hebrink, Brooke Hebrink and Larry Arentson and others volunteer in the community, including at this nearby local school. Middle, trucks line up for loading at the CF Industries facility at Port Neal, Iowa. Bottom, visitors enjoy interacting with newborn animals at the CHS Miracle of Birth Center during the Minnesota State Fair.

DELIVERING THE ESSENTIALS



From left, Bielenberg, Casale

Rich soil. Timely rains. Sunshine. The right fuel, seed, fertilizer and crop protection products. Expert advice. These are essentials when it comes to raising a crop for maximum yield.

And the essentials for a successful cooperative? Dedication to safety. A sound balance sheet. Investments in people, facilities and equipment. An unwavering commitment to adding value that helps our owners, customers, employees and communities grow.

There's no question that 2016 has been the most challenging year in well over a decade — from the farm to the global marketplace. A complex geopolitical environment, supply/demand imbalances and more drove commodity prices lower and put pressure on margins. These challenges in agriculture were compounded by an equally soft market for CHS and member cooperatives in the energy business.

For fiscal 2016, CHS revenues were \$30.3 billion, down 12 percent from \$34.6 in fiscal 2015, largely due to continued lower prices for the grain, fertilizer and energy products that comprise the majority of our business. Our resulting earnings

for fiscal 2016 were \$424.2 million, down from \$781.0 million for fiscal 2015. In fiscal 2017, based on fiscal 2016 results, we expect to return \$337 million in direct economic value to our owners in the form of cash patronage, equity redemptions and preferred stock dividends.

While these are not easy times, we know down cycles are inevitable in our agriculture and energy businesses. We also know what it takes to weather them: focusing on the essentials.

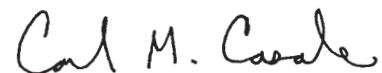
CHS entered this uncertain economic period in a position of relative strength. As we navigate through it, we'll stay focused on our priorities. That includes always putting safety first and taking steps to maintain balance sheet strength and profitability. As we all know, one upside of challenging times is the incentive to scrutinize everything we do to ensure optimal efficiency and return on investment. Throughout fiscal 2016 and as 2017 begins, we've managed expenses and staffing prudently, while continuing to invest in necessary maintenance and upgrades to keep our assets in top operating form.

But even as we manage within today's economics, we never lose our long-term view. Fiscal 2016 has been a landmark year for CHS and our owners. We've made critical investments, detailed in this annual report, and laid important groundwork for not just the next few years, but for the next generations of cooperative owners and customers.

What's essential as we move through fiscal 2017 and beyond? The same essential tenet of our nearly nine-decade history: our commitment to being a financially sound company that adds value for our owners today and for their children and grandchildren in the years to come.



David Bielenberg
Chairman, Board of Directors



Carl Casale
President and Chief Executive Officer

THE ESSENTIALS IN REVIEW

/// A new coker at the **CHS refinery** at McPherson, Kan., allows the refinery to process a larger variety of crude oils. This delivers the best value to owners and customers by using the most cost-effective crude oil available. The refinery became fully owned by CHS on Sept. 1, 2015. The CHS refinery at Laurel, Mont., began operating a new coker in 2008. These improvements and others bring increased capacity to serve CHS owners.

/// All retail Cenex® locations now carry Cenex **TOP TIER™ Detergent Gasoline** and more than 500

locations offer Cenex premium diesel fuel. Cenex ZipTrip® retail stores contributed record profitability and fuel sales in 2016.

/// Investment in the CHS **pipeline** and connection with the NuStar pipeline, to be completed in early calendar 2017, will help ensure a dependable supply of Cenex brand refined fuels for customers across North Dakota, South Dakota and Minnesota.

/// Customer service and reliable supply is paramount for **CHS Propane**. Rail capacity and

terminal expansions from Maine to Washington state, along with a proprietary supply agreement with NuStar Energy LP, helped ensure continuous, dependable supply.

/// A market-leading risk management tool, the Cenex **Total Protection Plan® warranty** gave equipment owners who purchase Cenex lubricants and fuels greater peace of mind and helped boost lubricant and grease product sales. Cenex lubricants have been reformulated to meet



Refined fuels pipeline replacement and construction, eastern Montana

Cenex® convenience store, Cooperative Energy, Sibley, Iowa

270

SCHOLARSHIPS FOR AG STUDENTS AT 85 COLLEGES

120 MILLION GALLONS PROPANE TERMINAL AND RAIL CAPACITY GROWTH SINCE 2010



77

CENEX® RETAIL SITES OPENED IN FISCAL 2016

specifications of new engines, which operate at higher temperatures.

/// The Cenex **Tanks of Thanks**[®] program celebrated five years of partnering with 1,450 local retailers to recognize good deeds in more than 3,000 communities. More than 13,000 people have been honored since Tanks of Thanks began in 2012.

/// With the CF Industries Nitrogen, LLC, and CHS agreement complete, customers began receiving **fertilizer** shipments in

time for spring 2016 applications. The enhanced distribution system, served by truck, rail and barge, includes more than 90 locations that store and distribute fertilizer to retail customers.

/// **Safety first.** The entire CHS system works toward continual improvement, including risk assessment, training and communications that drive employee engagement. **CHS Transportation** continued to focus on safety, with a significant drop in accident rate, putting it in the top quartile of the industry.

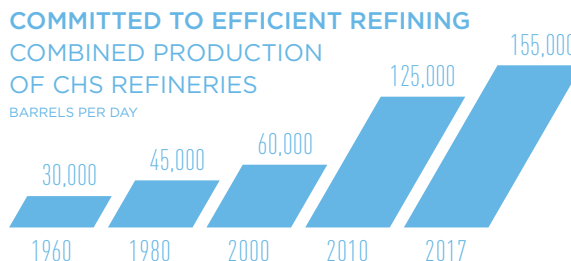
The CHS Foundation continued its partnership with Progressive Agriculture Foundation to help provide safety days for children. CHS purchased rescue tubes and trained rural fire departments on preventing grain handling accidents.



CHS-sponsored Progressive Ag Safety Day, Rochester, Minn.

\$2b

CHS INVESTMENT IN REFINED FUELS MANUFACTURING AND DISTRIBUTION



\$500k+

IN FREE FUEL AWARDED TO TANKS OF THANKS[®] RECIPIENTS

THE ESSENTIALS IN REVIEW

- /// **CHS Country Operations** helped producer-owners deliver more value through collaboration. Eight CHS business units in Idaho, Illinois, Montana, North Dakota and Washington combined operations to achieve greater effectiveness. Country Operations expanded partnerships with cooperatives in Kansas and Alberta and also invested in agronomy and grain assets in Minnesota, Montana, North Dakota and Wisconsin.
- /// The canola processing plant in Hallock, Minn., exceeded volume

expectations in its first year and significantly expanded both production and the product base for **CHS Processing and Food Ingredients**. More non-GMO soy oil products are being offered to meet demand. And CHS farmer-owners can now enter contracts to produce high-oleic soybeans to meet food production needs.

- /// Protecting **food and feed quality**, 12 CHS feed mills producing Payback® feed received Hazard Analysis Critical Control Point certification. Four CHS Sunflower

facilities achieved new food safety designations as the business implemented an industry-leading pasteurization process.

- /// **Business Solutions** invested in partnerships to support member-owners, including the 100 percent CHS ownership stake in Russell Consulting, which provides financial and market advice for challenging times. The Land As Your Legacy® program continued to grow, engaging farm families in planning and educational seminars to prepare them to transition land to the next generation.



CHS Prairie Lakes Agronomist/Crop Consultant Erica Boyum and producer Jerome Hanson, Hoffman, Minn.

Producer Steve Nightingale, Osco, Ill., at the CHS Annawan, Ill., ethanol plant

100m

TRANSACTIONS BY CHS PAYMENT SOLUTIONS FOR ENERGY CUSTOMERS IN FISCAL 2016

65 COUNTRIES
GRAIN SALES OR PURCHASES FOR THE CHS SYSTEM



8,350

HOURS OF DEFENSIVE DRIVING TRAINING COMPLETED BY 4,200 EMPLOYEES

- /// **Ventura Foods, LLC**, a joint venture between CHS and Mitsui, Inc., completed two significant growth acquisitions in 2016. In February, it acquired Wings of Canada, a Toronto-based manufacturer of dressings and sauces, and in June, Ventura Foods acquired the Cargill dressings, sauces and mayonnaise business in North America. Ventura Foods continues as a leading producer of food products for foodservice and retail customers.
- /// **Ardent Mills, LLC**, a joint venture with Cargill and ConAgra, announced a new initiative committed to helping

U.S. wheat growers double organic wheat acres by 2019.

- /// **CHS Government Affairs** released results of an Ernst & Young study on cooperative value, pointing to the CHS system as a catalyst for job creation and community vitality. More than 50 educational events for federal, state and local policymakers helped advocate for CHS owners and businesses. One key initiative was supporting legislation to extend the deadline for compliance to new railway requirements that could severely restrict fertilizer shipments.

- /// The **CHS Foundation** and North Dakota State University partnered on a new endowed chair in risk management and trading, made possible by a \$2.5 million grant from the foundation. The CHS Foundation also helped fund the Montana State University Auto/Diesel Technology Center at Havre, Mont. The CHS Foundation is funded by charitable gifts from CHS Inc.



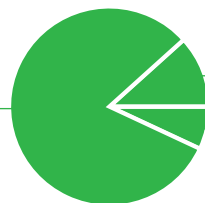
Producers Danell and Kent Kalcevic, Bennett, Colo.

\$90m

INVESTED IN UPPER-TIER ENERGY PRODUCT SUPPLY NETWORK

CHS FOUNDATION MAKES A DIFFERENCE

\$3.2m
TO DEVELOPING AG LEADERS



\$464k
TO SUPPORT VIBRANT RURAL COMMUNITIES

\$264k
TO PROMOTE AG SAFETY

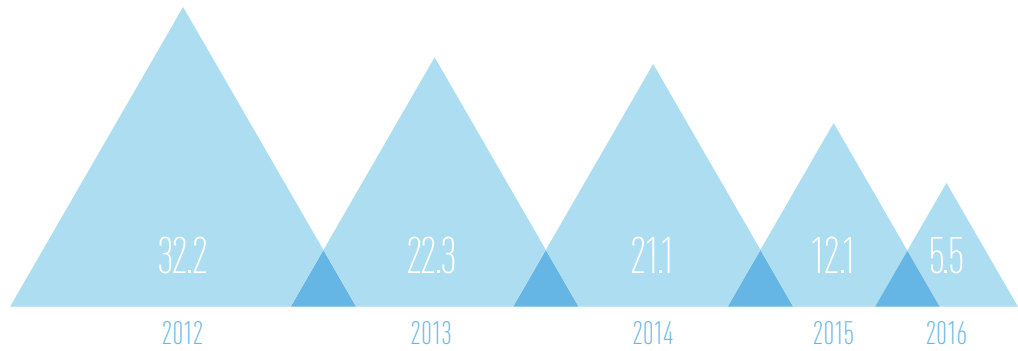
THE CHS FOUNDATION IS FUNDED BY CHARITABLE GIFTS FROM CHS INC.

\$230m

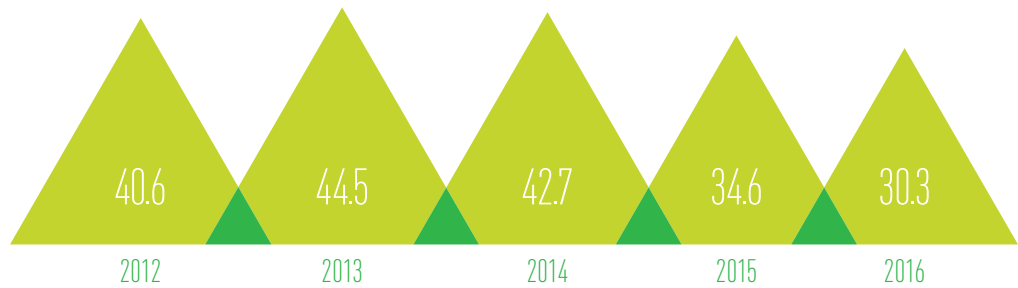
IN IMPROVEMENTS TO CHS COUNTRY OPERATIONS LOCATIONS

FINANCIAL HIGHLIGHTS

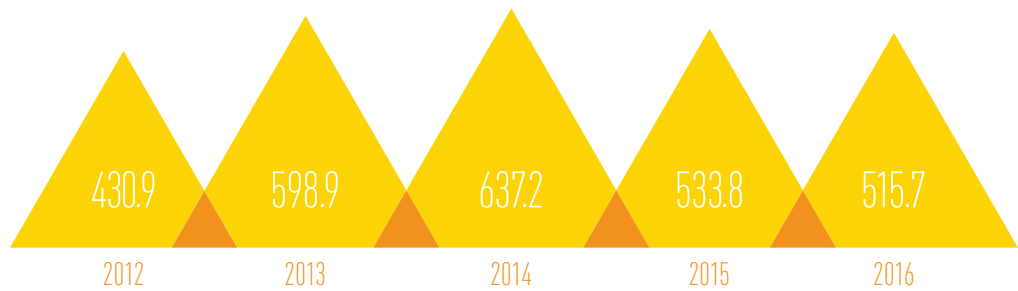
OWNER RETURN
ON EQUITY
(percent)



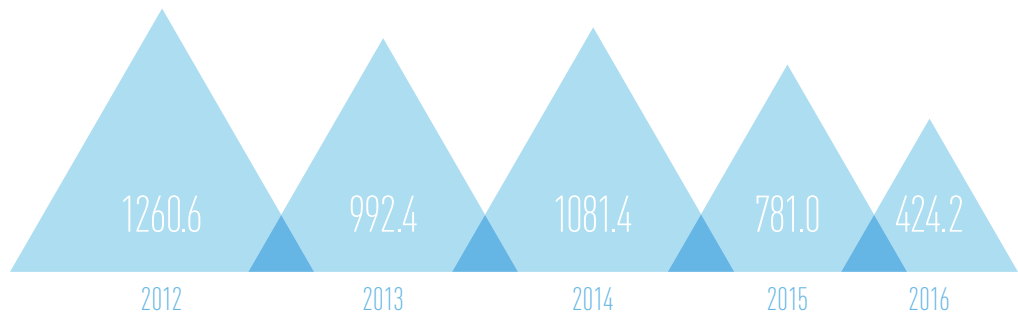
NET
SALES
(\$ in billions)



CASH
RETURN*
(\$ in millions)
*Includes preferred stock and dividends



NET
INCOME
(\$ in millions)



Year-over-year CHS earnings and revenues declined during fiscal 2016, largely the result of the ongoing down cycles within the global agriculture and energy sectors that have resulted in lower commodity prices and margins and affected a significant portion of the company's businesses. Amid this downturn, which has been felt by CHS customers and competitors throughout those industries, CHS continues to take prudent actions to ensure the company remains financially sound and positioned for future opportunities.

CHS net income for fiscal 2016 (Sept. 1, 2015, through Aug. 31, 2016) of \$424.2 million declined 46 percent from \$781.0 million for fiscal 2015, reflecting lower pre-tax earnings within the company's Energy and Ag segments, as well as its Corporate and Other category. Lower pre-tax earnings within these two segments were partly offset by increased pretax earnings in its Foods segment and seven months of earnings from its Nitrogen Production segment generated by the February 2016 strategic investment CHS made in CF Industries Nitrogen, LLC (CF Nitrogen).

Overall CHS revenues for fiscal 2016 were \$30.3 billion, down 12 percent from \$34.6 billion for fiscal 2015, largely due to lower values for the commodity energy, grains and fertilizer products that comprise much of the company's business.

Year-over-year pre-tax earnings for the CHS Energy segment declined 49 percent to \$275.4 million for the year ended Aug. 31, 2016, primarily due to significantly reduced refining margins for the company's

two refineries. Earnings for the company's transportation business also declined. Record performance by the CHS propane business for fiscal 2016 improved significantly over fiscal 2015, which included reduced crop drying and winter heating demand. The CHS lubricants business also reported record earnings for a second consecutive year.

CHS reports results for its agricultural inputs, grain marketing, local retail and processing businesses under the Ag segment. The company recorded fiscal 2016 Ag earnings before taxes of \$30.9 million, down 79 percent from fiscal 2015, a year during which results included a \$116.5 million one-time impairment charge resulting from the decision to cease planned development of a nitrogen fertilizer plant at Spiritwood, N.D.

Within the Ag segment, earnings for the company's Country Operations local retail businesses declined, primarily due to lower grain margins. This was partially offset by higher grain volumes in fiscal 2016 compared with fiscal 2015. Lower margins also contributed to a decline in earnings for the CHS wholesale crop nutrients business. CHS grain marketing earnings also decreased in fiscal 2016, primarily due to lower margins that were partially offset by larger volumes. CHS Processing and Food Ingredients saw lower year-over-year earnings for fiscal 2016, primarily due to costs associated with the sale and impairment of assets, along with a specific customer receivable and, to a lesser extent, lower soybean crushing margins. The company's renewable fuels marketing and production operations also declined from fiscal 2016 as a result of lower

ethanol market prices, also partially offset by increased volumes.

CHS recorded fiscal 2016 income before taxes of \$34.1 million, net of allocated expenses, from its February 2016 investment in CF Nitrogen under its Nitrogen Production segment. In addition, CHS recorded fiscal 2016 pre-tax earnings of \$64.8 million, net of allocated expenses, for ownership in Ventura Foods, LLC, under its Foods segment; these results had previously been reported under the Corporate and Other heading. Within the Corporate and Other category, CHS reported slightly higher earnings for fiscal 2016 for its business services operations, including the company's insurance, risk management and financing businesses, while year-over-year income from its ownership in the Ardent Mills, LLC, wheat milling joint venture declined.

In fiscal 2016, based on fiscal 2015 earnings, CHS returned \$515.7 million to its owners in cash patronage, equity redemptions, preferred stock and dividends on preferred stock. Based on fiscal 2016 results, the company expects to return an estimated \$337 million to owners during fiscal 2017.

As fiscal 2017 unfolds, CHS will sustain its focus on its financial and operational priorities. This includes always putting safety first and taking steps to maintain balance sheet strength and profitability. The company will continue to manage expenses and staffing prudently, while continuing to make investments in necessary maintenance and essential operational upgrades and ensuring assets deliver appropriate levels of return.

CONSOLIDATED BALANCE SHEETS

AUGUST 31 (DOLLARS IN THOUSANDS)	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 279,313	\$ 953,813
Receivables	2,880,763	2,818,110
Inventories	2,370,699	2,652,344
Derivative assets	543,821	513,441
Margin deposits	310,276	273,118
Supplier advance payments	347,600	391,504
Other current assets	202,708	406,479
Total current assets	6,935,180	8,008,809
Investments	3,795,976	1,002,092
Property, plant and equipment	5,488,323	5,192,927
Other assets	1,098,230	1,024,484
Total assets	\$ 17,317,709	\$ 15,228,312
LIABILITIES AND EQUITIES		
Current liabilities:		
Notes payable	\$ 2,731,479	\$ 1,165,378
Current portion of long-term debt	214,329	170,309
Current portion of mandatorily redeemable noncontrolling interest	—	152,607
Customer margin deposits and credit balances	208,991	188,149
Customer advance payments	412,823	398,341
Accounts payable	1,819,049	1,813,302
Derivative liabilities	513,599	470,769
Accrued expenses	422,494	513,578
Dividends and equities payable	198,031	384,427
Total current liabilities	6,520,795	5,256,860
Long-term debt	2,088,450	1,260,808
Long-term deferred tax liabilities	487,762	580,835
Other liabilities	354,452	460,398
Commitments and contingencies (Note 14)		
Equities:		
Preferred stock	2,244,132	2,167,540
Equity certificates	4,237,174	4,099,882
Accumulated other comprehensive loss	(211,726)	(214,207)
Capital reserves	1,582,380	1,604,670
Total CHS Inc. equities	7,851,960	7,657,885
Noncontrolling interests	14,290	11,526
Total equities	7,866,250	7,669,411
Total liabilities and equities	\$ 17,317,709	\$ 15,228,312

The accompanying notes are an integral part of the consolidated financial statements.
CHS Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED AUGUST 31 (DOLLARS IN THOUSANDS)	2016	2015	2014
Revenues	\$ 30,347,203	\$ 34,582,442	\$ 42,664,033
Cost of goods sold	29,387,910	33,091,676	41,011,487
Gross profit	959,293	1,490,766	1,652,546
Marketing, general and administrative	649,097	775,354	602,598
Operating earnings	310,196	715,412	1,049,948
(Gain) loss on investments	(9,252)	(5,239)	(114,162)
Interest expense, net	75,347	60,333	140,253
Equity (income) loss from investments	(175,777)	(107,850)	(107,446)
Income before income taxes	419,878	768,168	1,131,303
Income taxes	(4,091)	(12,165)	48,296
Net income	423,969	780,333	1,083,007
Net income (loss) attributable to noncontrolling interests	(223)	(712)	1,572
Net income attributable to CHS Inc.	\$ 424,192	\$ 781,045	\$ 1,081,435

The accompanying notes are an integral part of the consolidated financial statements.
CHS Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED AUGUST 31 (DOLLARS IN THOUSANDS)	2016	2015	2014
Net income	\$ 423,969	\$ 780,333	\$ 1,083,007
Other comprehensive income (loss), net of tax:			
Postretirement benefit plan activity, net of tax expense (benefit) of \$3,903, \$(12,726) and \$8,410 in 2016, 2015 and 2014, respectively	6,583	(19,877)	13,759
Unrealized net gain (loss) on available for sale investments, net of tax expense (benefit) of \$947, \$(154) and \$1,251 in 2016, 2015 and 2014, respectively	1,500	(242)	2,028
Cash flow hedges, net of tax expense (benefit) of \$(2,410), \$(1,607) and \$(8,883) in 2016, 2015 and 2014, respectively	(3,872)	(2,602)	(14,407)
Foreign currency translation adjustment, net of tax expense (benefit) of \$1,163, \$4,057 and \$(783) in 2016, 2015 and 2014, respectively	(1,730)	(34,729)	(1,270)
Other comprehensive income (loss), net of tax	2,481	(57,450)	110
Comprehensive income	426,450	722,883	1,083,117
Less comprehensive income attributable to noncontrolling interests	(223)	(712)	1,572
Comprehensive income attributable to CHS Inc.	\$ 426,673	\$ 723,595	\$ 1,081,545

The accompanying notes are an integral part of the consolidated financial statements.
CHS Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITIES

(DOLLARS IN THOUSANDS)	FOR THE YEARS ENDED AUGUST 31, 2016, 2015 AND 2014		
	EQUITY CERTIFICATES		
	CAPITAL EQUITY CERTIFICATES	NONPATRONAGE EQUITY CERTIFICATES	NONQUALIFIED EQUITY CERTIFICATES
BALANCES, AUGUST 31, 2013	\$ 3,430,537	\$ 23,485	\$ 134,324
Reversal of prior year patronage and redemption estimates	(325,862)		(129,462)
Distribution of 2013 patronage refunds	422,670		131,661
Redemptions of equities	(99,204)	(229)	(176)
Equities issued	14,278		
Capital equity certificates redeemed with preferred stock	(200,000)		
Preferred stock dividends			
Other, net	(1,034)		(227)
Net income			
Other comprehensive income (loss), net of tax			
Estimated 2014 patronage refunds	397,237		148,579
Estimated 2014 equity redemptions	(130,149)		
BALANCES, AUGUST 31, 2014	3,508,473	23,256	284,699
Reversal of prior year patronage and redemption estimates	(267,088)		(148,579)
Distribution of 2014 patronage refunds	402,560		147,710
Redemptions of equities	(127,707)	(199)	(1,021)
Equities issued	12,365		
Preferred stock dividends			
Other, net	(2,723)		119
Net income			
Other comprehensive income (loss), net of tax			
Estimated 2015 patronage refunds	375,267		
Estimated 2015 equity redemptions	(107,250)		
BALANCES, AUGUST 31, 2015	3,793,897	23,057	282,928
Reversal of prior year patronage and redemption estimates	(268,017)		
Distribution of 2015 patronage refunds	375,506		
Redemptions of equities	(22,948)	(143)	(820)
Equities issued	23,258		
Capital equity certificates redeemed with preferred stock	(76,756)		
Preferred stock dividends			
Other, net	(1,248)	(20)	(341)
Net income			
Other comprehensive income (loss), net of tax			
Estimated 2016 patronage refunds	167,381		
Estimated 2016 equity redemptions	(58,560)		
BALANCES, AUGUST 31, 2016	\$ 3,932,513	\$ 22,894	\$ 281,767

The accompanying notes are an integral part of the consolidated financial statements.
CHS Inc. and Subsidiaries

FOR THE YEARS ENDED AUGUST 31, 2016, 2015 AND 2014

PREFERRED STOCK	ACCUMULATED OTHER COMPREHENSIVE LOSS	CAPITAL RESERVES	NONCONTROLLING INTERESTS	TOTAL EQUITIES
\$ 319,368	\$ (156,867)	\$ 1,380,361	\$ 21,539	\$ 5,152,747
		841,386		386,062
		(841,120)		(286,789)
				(99,609)
670,809				685,087
200,000				—
		(61,658)		(61,658)
		8,897	(4,775)	2,861
		1,081,435	1,572	1,083,007
	110			110
		(810,641)		(264,825)
				(130,149)
1,190,177	(156,757)	1,598,660	18,336	6,466,844
		810,641		394,974
		(821,496)		(271,226)
		20		(128,907)
977,363				989,728
		(145,723)		(145,723)
		6,967	(6,098)	(1,735)
		781,045	(712)	780,333
	(57,450)			(57,450)
		(625,444)		(250,177)
				(107,250)
2,167,540	(214,207)	1,604,670	11,526	7,669,411
		625,444		357,427
		(627,246)		(251,740)
				(23,911)
				23,258
76,756				—
		(164,207)		(164,207)
(164)		(1,505)	2,987	(291)
		424,192	(223)	423,969
	2,481			2,481
		(278,968)		(111,587)
				(58,560)
\$ 2,244,132	\$ (211,726)	\$ 1,582,380	\$ 14,290	\$ 7,866,250

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31 (DOLLARS IN THOUSANDS)	2016	2015	2014
Cash flows from operating activities:			
Net income	\$ 423,969	\$ 780,333	\$ 1,083,007
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	447,492	355,422	306,247
Amortization of deferred major repair costs	73,483	45,953	45,070
(Income) loss from equity investments	(175,777)	(107,850)	(107,446)
Distributions from equity investments	178,464	80,917	79,685
Noncash patronage dividends received	(7,068)	(13,035)	(16,452)
(Gain) loss on sale of property, plant and equipment	452	(7,350)	3,316
(Gain) loss on investments	(9,252)	(5,239)	(114,162)
Unrealized (gain) loss on crack spread contingent liability	(60,931)	(36,310)	(19,217)
Provision for doubtful accounts	57,200	2,806	9,050
Long-lived asset impairment	27,247	103,723	74,452
Deferred taxes	(24,178)	30,304	(24,397)
Other, net	424	3,681	7,777
Changes in operating assets and liabilities, excluding the effects of acquisitions:			
Receivables	46,405	314,313	101,083
Inventories	338,662	71,073	(37,792)
Derivative assets	(20,257)	100,715	(123,132)
Margin deposits	(37,115)	(8,534)	39,861
Supplier advance payments	44,047	3,127	67,688
Other current assets and other long-term assets	120,993	(87,426)	(19,694)
Customer margin deposits and credit balances	20,841	(106,788)	(34,051)
Customer advance payments	5,664	(223,463)	164,021
Accounts payable and accrued expenses	(129,259)	(558,120)	(189,803)
Derivative liabilities	36,283	(134,033)	134,925
Other liabilities	(94,291)	(34,209)	11,208
Net cash provided by (used in) operating activities	1,263,498	570,010	1,441,244
Cash flows from investing activities:			
Acquisition of property, plant and equipment	(692,780)	(1,186,790)	(919,076)
Proceeds from disposals of property, plant and equipment	13,417	11,347	11,724
Expenditures for major repairs	(19,610)	(201,688)	(2,930)
Investments in joint ventures and other	(2,855,218)	(64,259)	(80,140)
Investments redeemed	33,821	19,927	138,485
Proceeds from sale of investments	39,229	7,733	4,668
Changes in notes receivable	(257,968)	(184,067)	(184,060)
Business acquisitions, net of cash acquired	(11,890)	(305,213)	(281,490)
Other investing activities, net	4,028	(5,658)	(3,576)
Net cash provided by (used in) investing activities	(3,746,971)	(1,908,668)	(1,316,395)
Cash flows from financing activities:			
Proceeds from lines of credit and long-term borrowings	31,586,968	8,954,420	4,591,982
Payments on lines of credit, long term-debt and capital lease obligations	(29,232,842)	(9,141,240)	(4,540,558)
Mandatorily redeemable noncontrolling interest payments	(153,022)	(65,981)	(65,981)
Payments on crack spread contingent liability	(2,625)	—	(8,670)
Changes in checks and drafts outstanding	50,257	(43,353)	(17,815)
Preferred stock issued	—	1,010,000	702,979
Preferred stock issuance costs	(164)	(32,637)	(23,672)
Preferred stock dividends paid	(163,324)	(133,710)	(50,761)
Redemptions of equities	(23,911)	(128,907)	(99,609)
Cash patronage dividends paid	(251,740)	(271,226)	(286,789)
Other financing activities, net	4,599	6,462	344
Net cash provided by (used in) financing activities	1,814,196	153,828	201,450
Effect of exchange rate changes on cash and cash equivalents	(5,223)	5,436	(1,624)
Net increase (decrease) in cash and cash equivalents	(674,500)	(1,179,394)	324,675
Cash and cash equivalents at beginning of period	953,813	2,133,207	1,808,532
Cash and cash equivalents at end of period	\$ 279,313	\$ 953,813	\$ 2,133,207

The accompanying notes are an integral part of the consolidated financial statements.
CHS Inc. and Subsidiaries

ONE

Organization, Basis of Presentation and Significant Accounting Policies

Organization

CHS Inc. (“CHS”, “we”, “us”, “our”) is one of the nation’s leading integrated agricultural companies. As a cooperative, CHS is owned by farmers and ranchers and their member cooperatives (“members”) across the United States. We also have preferred stockholders that own shares of our various series of preferred stock, which are each listed on the Global Select Market of the NASDAQ Stock Market LLC (“NASDAQ”). See Note 9, *Equities* for more detailed information.

We buy commodities from and provide products and services to patrons (including member and other non-member customers), both domestic and international. Those products and services include initial agricultural inputs such as fuels, farm supplies, crop nutrients and crop protection products; as well as agricultural outputs that include grains and oilseeds, grain and oilseed processing and food products, and ethanol production and marketing. A portion of our operations are conducted through equity investments and joint ventures whose operating results are not fully consolidated with our results; rather, a proportionate share of the income or loss from those entities is included as a component in our net income under the equity method of accounting.

Basis of Presentation

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.

The notes to our consolidated financial statements make reference to our Energy, Ag, Nitrogen Production and Foods reportable segments, as well as our Corporate and Other category, which represents an aggregation of individually immaterial operating segments. The Nitrogen Production reportable segment resulted from our investment in CF Industries Nitrogen, LLC (“CF Nitrogen”) in February 2016. The Foods segment resulted from our investment in Ventura Foods, LLC (“Ventura Foods”) becoming a significant operating segment in fiscal 2016. See Note 11, *Segment Reporting* for more information.

Revisions

In preparing our consolidated financial statements for the year ended August 31, 2015, we identified immaterial

errors that impacted our previously issued consolidated financial statements. The primary errors related to: 1) incorrect application of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 840, *Leases* to our lease arrangements and 2) inaccurate presentation of non-cash acquisitions of property, plant and equipment and expenditures for major repairs on our consolidated statements of cash flows. Prior period amounts presented in our consolidated financial statements and the related notes have been revised accordingly, and those revisions are noted where they appear. See Note 18, *Correction of Immaterial Errors* for a more detailed description of the revisions and for comparisons of amounts previously reported to the revised amounts.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates on assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates. On an ongoing basis, we evaluate our estimates and assumptions.

Cash and Cash Equivalents

Cash equivalents include short-term, highly liquid investments with original maturities of three months or less at the date of acquisition. The fair value of cash and cash equivalents approximates the carrying value because of the short maturity of the instruments.

Inventories

Grain, processed grain, oilseed, processed oilseed and other minimally processed soy-based inventories are stated at net realizable values which approximate market values. These inventories are considered to be agricultural commodity inventories that are readily convertible to cash because of their commodity characteristics, widely available markets and international pricing mechanisms. Agricultural commodity inventories have

ONE: Organization, Basis of Presentation and Significant Accounting Policies, continued

quoted market prices in active markets, may be sold without significant further processing and have predictable and insignificant disposal costs. Changes in the net realizable value of merchandisable agricultural commodities inventories are recognized in earnings as a component of cost of goods sold.

All other inventories are stated at the lower of cost or market. Costs for inventories produced or modified by us through a manufacturing process include fixed and variable production and raw material costs, and in-bound freight costs for raw materials. Costs for inventories purchased for resale include the cost of products and freight incurred to place the products at our points of sale. The costs of certain energy inventories (wholesale refined products, crude oil and asphalt) are determined on the last-in, first-out (“LIFO”) method; all other inventories of non-grain products purchased for resale are valued on the first-in, first-out (“FIFO”) and average cost methods.

Derivative Financial Instruments and Hedging Activities

We enter into various derivative instruments to manage our exposure to movements primarily associated with agricultural commodity prices and freight costs, and to a lesser degree, foreign currency exchange rates and interest rates. With the exception of certain interest rate swap contracts, which are accounted for as cash flow hedges or fair value hedges, our derivative instruments represent economic hedges of price risk for which hedge accounting under ASC Topic 815, *Derivatives and Hedging*, is not applied. Rather, the derivative instruments are recorded on our Consolidated Balance Sheets at fair value with changes in fair value being recorded directly to earnings, primarily within cost of goods sold in our Consolidated Statements of Operations. See Note 12, *Derivative Financial Instruments and Hedging Activities* and Note 13, *Fair Value Measurements* for additional information.

Although we have certain netting arrangements for our exchange-traded futures and options contracts and certain over-the-counter (“OTC”) contracts, we have elected to report our derivative instruments on a gross basis on our Consolidated Balance Sheets under ASC Topic 210-20, *Balance Sheet—Offsetting*.

Margin Deposits

Many of our derivative contracts with futures and options brokers require us to make margin deposits of cash or other assets. Subsequent margin deposits may also be necessary when changes in commodity prices result in a loss on the contract value, in order to comply with applicable regulations. Our margin deposit assets are held by external brokers in segregated accounts to support the associated derivative contracts and may be used to fund or partially fund the settlement of those contracts as they expire. Similar to our derivative financial instruments, margin deposits are also reported on a gross basis.

Supplier Advance Payments

Supplier advance payments primarily include amounts paid for in-transit grain purchases from suppliers and amounts paid to crop nutrient suppliers to lock in future supply and pricing.

Investments

The equity method of accounting is used for joint ventures and other investments in which we are able to exercise significant influence over the entity’s operations, but do not have a controlling interest in the entity. Various factors are considered when assessing significant influence, including our ownership interest, representation on the Board of Directors, voting rights, and the impact of commercial arrangements that may exist with the entity.

The cost method of accounting is used for other investments in which we do not exercise significant influence. Investments in other cooperatives are stated at cost, plus patronage dividends received in the form of capital stock and other equities. Patronage dividends are recorded as a reduction to cost of goods sold at the time qualified written notices of allocation are received.

Investments in other debt and equity securities are classified as available-for-sale financial instruments and are stated at fair value, with unrealized gains and losses included as a component of accumulated other comprehensive loss on our Consolidated Balance Sheets. Investments in debt and equity instruments are carried at amounts that approximate fair values.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on the straight-line method by charges to operations at rates based upon the expected useful lives of individual or groups of assets (15 to 20 years for land improvements; 20 to 40 years for buildings; 5 to 20 years for machinery and equipment; and 3 to 10 years for office and other). The cost and related accumulated depreciation and amortization of assets sold or otherwise disposed of are removed from the related accounts and resulting gains or losses are reflected in operations. Expenditures for maintenance and minor repairs and renewals are expensed, while the costs for major maintenance activities are capitalized and amortized on a straight-line basis over the period of time estimated to lapse until the next major maintenance activity occurs. We also capitalize and amortize eligible costs to acquire or develop internal-use software that are incurred during the application development stage. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the related accounts and resulting gains or losses are reflected in operations.

Property, plant and equipment and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. This evaluation of recoverability is based on various indicators, including the nature, future economic benefits and geographic locations of the assets, historical or future profitability measures, and other external market conditions. If these indicators suggest that the carrying amounts of an asset or asset group may not be recoverable, potential impairment is evaluated using undiscounted estimated future cash flows. Should the sum of the expected future net cash flows be less than the carrying value, an impairment loss would be recognized. An impairment loss would be measured by the amount by which the carrying value of the asset or asset group exceeds its fair value.

We have asset retirement obligations with respect to certain of our refineries and other assets due to various legal obligations to clean and/or dispose of the component parts at the time they are retired. In most cases,

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

We have other assets that we may be obligated to dismantle at the end of corresponding lease terms subject to lessor discretion for which we have recorded asset retirement obligations. Based on our estimates of the timing, cost and probability of removal, these obligations are not material.

Major Maintenance Activities

Within our Energy segment, major maintenance activities (“turnarounds”) are performed at our Laurel, Montana and McPherson, Kansas refineries regularly. Turnarounds are the planned and required shutdowns of refinery processing units, which include the replacement or overhaul of equipment that have experienced decreased efficiency in resource conversion. Because turnarounds are performed to extend the life, increase the capacity, and/or improve the safety or efficiency of refinery processing assets, we follow the deferral method of accounting for turnarounds. Expenditures for turnarounds are capitalized (deferred) when incurred and amortized on a straight-line basis over a period of 2 to 4 years, which is the estimated time lapse between turnarounds. Should the estimated period between turnarounds change, we may be required to amortize the remaining cost of the turnaround over a shorter period, which would result in higher depreciation and amortization costs. Capitalized turnaround costs are included in other assets (long-term) on our Consolidated Balance Sheets and amortization expense related to the capitalized turnaround costs is included in cost of goods sold in our Consolidated Statements of Operations.

ONE: Organization, Basis of Presentation and Significant Accounting Policies, continued

The selection of the deferral method, as opposed to expensing the turnaround costs when incurred, results in deferring recognition of the turnaround expenditures. The deferral method also results in the classification of the related cash outflows as investing activities in our Consolidated Statements of Cash Flows, whereas expensing these costs as incurred, would result in classifying the cash outflows as operating activities. Repair, maintenance and related labor costs are expensed as incurred and are included in operating cash flows.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets are included in other assets (long-term) on our Consolidated Balance Sheets. Goodwill represents the excess of cost over the fair value of identifiable assets acquired. Goodwill is tested for impairment on an annual basis as of May 31, or more frequently if events or circumstances occur which could indicate impairment. Goodwill is tested for impairment at the reporting unit level, which has been determined to be our operating segments or one level below our operating segments in certain instances.

Other intangible assets consist primarily of customer lists, trademarks and non-compete agreements. Intangible assets subject to amortization are expensed over their respective useful lives, which generally range from 2 to 30 years. We have no material intangible assets with indefinite useful lives. See Note 6, *Other Assets* for more information on goodwill and other intangible assets.

We made acquisitions during the three years ended August 31, 2016, which were accounted for using the acquisition method of accounting. Operating results for these acquisitions were included in our consolidated financial statements beginning on the respective acquisition dates. The respective purchase prices were preliminarily allocated to the assets, liabilities and identifiable intangible assets acquired based upon the acquisition-date fair values. Any excess purchase price over the fair values of the acquired net assets acquired was recognized as goodwill. See Note 17, *Acquisitions* for more information on acquisition activity.

Revenue Recognition

We provide a wide variety of products and services, from agricultural inputs such as fuels, farm supplies and crop nutrients, to agricultural outputs that include grain and oilseed, processed grains and oilseeds and food products, and ethanol production and marketing. We

recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. Grain and oilseed sales are recorded after the commodity has been delivered to its destination and final weights, grades and settlement prices have been agreed upon. All other sales are recognized upon transfer of title, which could occur either upon shipment to or receipt by the customer, depending upon the terms of the transaction. Shipping and handling amounts billed to a customer as part of a sales transaction are included in revenues and the related costs are included in cost of goods sold.

Environmental Expenditures

We are subject to various federal, state, and local environmental laws and regulations. Environmental expenditures are expensed or capitalized depending on their future economic benefit. Liabilities, including legal costs, related to remediation of contaminated properties are recognized when the related costs are considered probable and can be reasonably estimated. Estimates of environmental costs are based on current available facts, existing technology, undiscounted site-specific costs and currently enacted laws and regulations. Recoveries, if any, are recorded in the period in which recovery is received. Liabilities are monitored and adjusted as new facts or changes in law or technology occur.

Income Taxes

CHS is a nonexempt agricultural cooperative and files a consolidated federal income tax return with our 80% or more owned subsidiaries. We are subject to tax on income from nonpatronage sources, non-qualified patronage distributions and undistributed patronage-sourced income. Income tax expense is primarily the current tax payable for the period and the change during the period in certain deferred tax assets and liabilities. Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for federal and state income tax purposes, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Recent Accounting Pronouncements Adopted

In November 2015, the FASB issued Accounting Standards Update (“ASU”) No. 2015-17, *Balance Sheet Classification of Deferred Taxes*. ASU No. 2015-17 clarifies and simplifies the presentation of deferred income taxes by requiring deferred tax liabilities and assets to be classified as non-current in a classified statement of financial position. This ASU is effective for us beginning September 1, 2017, for our fiscal year 2018 and for interim periods within that fiscal year. Early adoption is permitted. We elected to early adopt ASU 2015-17 effective August 31, 2016 on a prospective basis. Adoption of ASU No. 2015-17 resulted in the netting of our current deferred tax assets against our non-current deferred tax assets in our Consolidated Balance Sheet as of August 31, 2016. Prior periods were not retrospectively adjusted. See Note 8, *Income Taxes* for more information on the adoption of ASU No. 2015-17.

Not Yet Adopted

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This ASU is intended to reduce existing diversity in practice in how certain cash receipts and payments are presented and classified in the statement of cash flows. This ASU is effective for us beginning September 1, 2018, for our fiscal year 2019 and for interim periods within that fiscal year. Early adoption is permitted, including in an interim period. We are currently evaluating the impact the adoption will have on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses. This ASU is intended to provide financial statement users with more decision-useful information about the expected credit losses. This ASU is effective for us beginning September 1, 2020, for our fiscal year 2021 and for interim periods within that fiscal year. Entities may early adopt beginning after December 15, 2018. We are currently evaluating the impact the adoption will have on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which replaces the existing guidance in ASC 840—*Leases*. This ASU requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize a straight-line total lease expense. This ASU is effective for us beginning September 1, 2019, for our fiscal year 2020 and for interim periods within that fiscal year. We are currently evaluating the impact the adoption will have on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires an entity to disclose sufficient qualitative and quantitative information surrounding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts from customers. This ASU supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition* and most industry-specific guidance throughout the Industry Topics of the Codification. In August 2015, the FASB issued ASU No. 2015-14 delaying the effective date for adoption. This ASU is now effective for us beginning September 1, 2018, for our fiscal year 2019 and for interim periods within that fiscal year. Subsequently, the FASB issued ASUs in 2016 containing implementation guidance related to ASU No. 2014-09, including: ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations; ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which is intended to clarify two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance; and ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, which contains

ONE: Organization, Basis of Presentation and Significant Accounting Policies, continued

certain provision and practical expedients in response to identified implementation issues. We will adopt ASU No. 2014-09 and the related ASUs on September 1, 2018, in the first quarter of fiscal 2019. Early application as of the original date is permitted. ASU No. 2014-09 permits the use of either the full or modified retrospective

method. We are evaluating the effect this guidance will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

TWO

Receivables

Receivables as of August 31, 2016 and 2015 are as follows:

(DOLLARS IN THOUSANDS)	2016	2015
Trade accounts receivable	\$ 1,804,646	\$ 1,793,147
CHS Capital short-term notes receivable	858,805	791,413
Other	380,956	339,995
	3,044,407	2,924,555
Less allowances and reserves	163,644	106,445
Total receivables	\$ 2,880,763	\$ 2,818,110

Trade accounts receivable are initially recorded at a selling price, which approximates fair value, upon the sale of goods or services to customers. Subsequently, trade accounts receivable are carried at net realizable value, which includes an allowance for estimated uncollectible amounts. We calculate this allowance based on our history of write-offs, level of past due accounts, and our relationships with, and the economic status of, our customers. The carrying value of CHS Capital, LLC ("CHS Capital") short-term notes receivable approximates fair value, given the notes' short duration and the use of market pricing adjusted for risk.

CHS Capital, our wholly-owned subsidiary, has short-term notes receivable from commercial and producer borrowers. The short-term notes receivable generally have maturity terms of 12-14 months and are reported at their outstanding principal balances, as CHS Capital holds these notes to maturity. The short-term notes receivable are collateralized by various combinations of mortgages, personal property, accounts and notes receivable, inventories and assignments of certain

regional cooperative's capital stock. These loans are primarily originated in the states of Minnesota, Wisconsin, North Dakota and Michigan. CHS Capital also has loans receivable from producer borrowers which are collateralized by various combinations of growing crops, live-stock, inventories, accounts receivable, personal property and supplemental mortgages. In addition to the short-term balances included in the table above, CHS Capital had long-term notes receivable, with durations of generally not more than 10 years, totaling \$322.4 million and \$190.4 million at August 31, 2016 and 2015, respectively. The long-term notes receivable are included in other long-term assets on our Consolidated Balance Sheets. As of August 31, 2016 and 2015, the commercial notes represented 26% and 34%, respectively, and the producer notes represented 74% and 66%, respectively, of the total CHS Capital notes receivable.

CHS Capital evaluates the collectability of both commercial and producer notes on a specific identification basis, based on the amount and quality of the collateral obtained, and records specific loan loss reserves when appropriate. A general reserve is also maintained based on historical loss experience and various qualitative factors. In total, the specific and general loan loss reserves related to CHS Capital are not material to our consolidated financial statements, nor are the associated historical write-offs. The accrual of interest income is discontinued at the time the loan is 90 days past due unless the credit is well-collateralized and in process of collection. The amount of CHS Capital notes that were past due was not significant at any reporting date presented. As of August 31, 2016, a single producer borrower accounted for 20% of the total outstanding CHS

Capital short-term and long-term notes receivable. These notes were originated in the midwestern region of the United States and are collateralized by inventories, personal property and mortgages, which CHS Capital has access to physically inspect. No other third party borrower accounted for more than 10% of the total outstanding CHS Capital notes receivable.

CHS Capital has commitments to extend credit to customers as long as there are no violations of any contractually established conditions. As of August 31, 2016, CHS Capital's customers have additional available credit of \$1.0 billion.

THREE

Inventories

Inventories as of August 31, 2016 and 2015 are as follows:

(DOLLARS IN THOUSANDS)	2016	2015
Grain and oilseed	\$ 937,258	\$ 966,923
Energy	729,695	785,116
Crop nutrients	217,521	369,105
Feed and farm supplies	417,431	465,744
Processed grain and oilseed	48,930	48,078
Other	19,864	17,378
Total inventories	\$ 2,370,699	\$ 2,652,344

As of August 31, 2016, we valued approximately 19% of inventories, primarily crude oil and refined fuels within our Energy segment, using the lower of cost, determined on the LIFO method, or market (18% as of August 31, 2015). If the FIFO method of accounting had been used, inventories would have been higher than the reported amount by \$93.9 million and \$68.1 million at August 31, 2016 and 2015, respectively.

FOUR

Investments

Investments as of August 31, 2016 and 2015 are as follows:

(DOLLARS IN THOUSANDS)	2016	2015
Equity method investments:		
CF Industries Nitrogen, LLC	\$ 2,796,323	\$ —
Ventura Foods, LLC	369,487	347,749
Ardent Mills, LLC	194,986	196,808
TEMCO, LLC	44,578	57,656
Other equity method investments	263,025	269,423
Cost method investments	127,577	130,456
Total investments	\$ 3,795,976	\$ 1,002,092

Joint ventures and other investments, in which we have significant ownership and influence, but not control, are accounted for in our consolidated financial statements using the equity method of accounting. Our significant equity method investments are summarized below.

On February 1, 2016, we invested \$2.8 billion in CF Nitrogen, commencing our strategic venture with CF Industries Holdings, Inc. The investment consists of an 11.4% membership interest (based on product tons) in CF Nitrogen. We also entered into an 80-year supply agreement that entitles us to purchase up to 1.1 million

FOUR: *Investments, continued*

tons of granular urea and 580,000 tons of urea ammonium nitrate (“UAN”) annually from CF Nitrogen for ratable delivery. Our purchases under the supply agreement are based on prevailing market prices and we receive semi-annual cash distributions (in January and July of each year) from CF Nitrogen via our membership interest. These distributions are based on actual volumes purchased from CF Nitrogen under the strategic venture and will have the effect of reducing our investment to zero over 80 years on a straight-line basis. We account for this investment using the hypothetical liquidation at book value method, recognizing our share of the earnings and losses of CF Nitrogen based upon our contractual claims on the entity’s net assets pursuant to the liquidation provisions of CF Nitrogen’s Limited Liability Company Agreement, adjusted for the semi-annual cash distributions. For the year ended August 31, 2016, this amount was \$74.7 million, and is included as equity income from investments in our Nitrogen Production segment.

The following tables provide aggregate summarized audited financial information for CF Nitrogen for the balance sheet as of August 31, 2016, and the statement of operations for the seven months ended August 31, 2016:

(DOLLARS IN THOUSANDS)	2016
Current assets	\$ 534,878
Non-current assets	7,043,121
Current liabilities	556,696
Non-current liabilities	—

(DOLLARS IN THOUSANDS)	2016
Net sales	\$ 1,027,142
Gross profit	243,911
Net earnings	186,665
Earnings attributable to CHS Inc.	74,700

We have a 50% interest in Ventura Foods, LLC, a joint venture which produces and distributes primarily vegetable oil-based products, and which constitutes our Foods segment. We account for Ventura Foods as an equity method investment, and as of August 31, 2016, our carrying value of Ventura Foods exceeded our share of its equity by \$12.9 million, which represents equity method goodwill.

During the first three quarters of fiscal 2014, we had a 24% interest in Horizon Milling, LLC and Horizon Milling, ULC (“Horizon Milling”), which were flour milling joint ventures with Cargill, Incorporated (“Cargill”) and were accounted for as equity method investments included in Corporate and Other. In the third quarter of fiscal 2014, we formed Ardent Mills LLC (“Ardent Mills”), a joint venture with Cargill and ConAgra Foods, Inc., which combined the North American flour milling operations of the three parent companies, including the Horizon Milling assets and CHS-owned mills, with CHS holding a 12% interest in Ardent Mills. Prior to closing, we contributed \$32.8 million to Horizon Milling to pay off existing debt as a pre-condition to close. Upon closing, Ardent Mills was financed with funds from third-party borrowings, which did not require credit support from the owners. We received \$121.2 million of cash proceeds distributed to us in proportion to our ownership interest, adjusted for deviations in specified working capital target amounts, and recognized a gain of \$109.2 million associated with this transaction. In connection with the closing, the 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. As we hold one of the five board seats, we account for Ardent Mills as an equity method investment included in Corporate and Other.

TEMCO, LLC (“TEMCO”) is owned and governed by Cargill (50%) and CHS (50%). During the year ended August 31, 2012, we entered into an amended and restated agreement to expand the scope of the original agreement with Cargill. Pursuant to the terms of the agreement, CHS and Cargill each agreed to commit to sell all of their feedgrains, wheat, oilseeds and by-product origination that are tributary to the Pacific Northwest, United States (“Pacific Northwest”) to TEMCO and to use TEMCO as their exclusive export-marketing vehicle for such grains exported through the Pacific Northwest for a term of 25 years. Cargill’s Tacoma, Washington and Portland Oregon facilities continues to be subleased to TEMCO. We account for TEMCO as an equity method investment included in our Ag segment.

The following tables provide aggregate summarized audited financial information for our major equity method investments in Ventura Foods, Ardent Mills and TEMCO for balance sheets as of August 31, 2016 and

2015, and statements of operations for the twelve months ended August 31, 2016, 2015 and 2014:

(DOLLARS IN THOUSANDS)	2016	2015
Current assets	\$ 1,638,780	\$ 1,892,563
Non-current assets	2,495,955	2,388,757
Current liabilities	836,544	968,104
Non-current liabilities	853,549	881,312

(DOLLARS IN THOUSANDS)	2016	2015	2014
Net sales	\$ 8,776,261	\$ 9,054,677	\$ 8,796,648
Gross profit	674,181	754,375	562,053
Net earnings	238,870	313,664	266,354
Earnings attributable to CHS Inc.	75,858	81,101	83,023

FIVE

Property, Plant and Equipment

As of August 31, 2016 and 2015, major classes of property, plant and equipment, which include capital lease assets, consisted of the amounts in the table below.

(DOLLARS IN THOUSANDS)	2016	2015
Land and land improvements	\$ 266,016	\$ 233,666
Buildings	1,040,943	838,386
Machinery and equipment	6,747,865	5,563,370
Office and other	250,879	163,026
Construction in progress	523,817	1,337,633
	8,829,520	8,136,081
Less accumulated depreciation and amortization	3,341,197	2,943,154
Total property, plant and equipment	\$ 5,488,323	\$ 5,192,927

We have various assets under capital leases totaling \$206.3 million and \$222.2 million as of August 31, 2016 and 2015, respectively. Accumulated amortization on assets under capital leases was \$103.3 million and \$101.3 million as of August 31, 2016 and 2015, respectively.

The following is a schedule by fiscal years of future minimum lease payments under capital leases together

Our investments in equity method investees other than the four entities described above are not significant in relation to our consolidated financial statements, either individually or in the aggregate.

with the present value of the net minimum lease payments as of August 31, 2016:

(DOLLARS IN THOUSANDS)	
2017	\$ 38,357
2018	28,064
2019	16,542
2020	8,285
2021	7,095
Thereafter	16,395
Total minimum future lease payments	114,738
Less amount representing interest	9,030
Present value of net minimum lease payments	\$ 105,708

We announced in September 2014 that our Board of Directors had approved plans to begin construction of a fertilizer manufacturing plant in Spiritwood, North Dakota that was anticipated to cost more than \$3.0 billion. In August 2015, we made the decision to not move forward with the construction of the Spiritwood facility and evaluated the assets and other capitalized costs related to the project for recoverability under ASC Topic 360-10. Consequently, we concluded that these assets were impaired and we recorded an overall charge

FIVE: Property, Plant and Equipment, continued

of \$116.5 million in marketing, general and administrative costs in our Ag segment. This charge was primarily comprised of the impairment of construction-in-progress, land and equipment totaling \$94.3 million. The remainder of the charge included the impairment of other assets and various contract termination costs associated with the cessation of the project.

Depreciation expense, including amortization of capital lease assets, for the years ended August 31, 2016, 2015 and 2014, was \$437.6 million, \$344.4 million and \$292.4 million, respectively.

SIX

Other Assets

Other assets as of August 31, 2016 and 2015 are as follows:

(DOLLARS IN THOUSANDS)	2016	2015
Goodwill	\$ 160,414	\$ 150,115
Customer lists, trademarks and other intangible assets	44,766	50,648
Notes receivable	328,605	197,067
Long-term receivable	29,491	35,191
Prepaid pension and other benefits	120,693	138,497
Capitalized major maintenance	169,054	241,588
Other	245,207	211,378
	<u>\$ 1,098,230</u>	<u>\$ 1,024,484</u>

Changes in the net carrying amount of goodwill for the year ended August 31, 2016, by segment, are as follows:

(DOLLARS IN THOUSANDS)	ENERGY	AG	CORPORATE AND OTHER	TOTAL
Balances, August 31, 2014	\$ 552	\$ 151,246	\$ 6,898	\$ 158,696
Goodwill acquired during the period (1)	—	(3,283)	—	(3,283)
Effect of foreign currency translation adjustments	—	(5,298)	—	(5,298)
Balances, August 31, 2015	\$ 552	\$ 142,665	\$ 6,898	\$ 150,115
Goodwill acquired during the period	—	5,726	4,048	9,774
Effect of foreign currency translation adjustments	—	1,220	—	1,220
Goodwill disposed due to sale of business	—	(695)	—	(695)
Balances, August 31, 2016	<u>\$ 552</u>	<u>\$ 148,916</u>	<u>\$ 10,946</u>	<u>\$ 160,414</u>

(1) Includes measurement period adjustments related to current and prior year acquisitions. Goodwill acquired during the period was \$0.4 million.

No goodwill has been allocated to our Nitrogen Production or Foods segments, which consist of investments accounted for under the equity method.

During the years ended August 31, 2016 and 2015, we had acquisitions which resulted in \$9.8 million and \$0.4 million of goodwill, respectively, for which we paid cash consideration of \$11.9 million and \$305.2 million, respectively. These acquisitions were primarily within our Ag segment and were not material, individually or in aggregate, to our consolidated financial statements. During the year ended August 31, 2016, we disposed of a business resulting in a reduction of \$0.7 million of goodwill. There were no business disposals resulting in decreases to goodwill during fiscal 2015.

Intangible assets subject to amortization primarily include customer lists, trademarks and non-compete agreements, and are amortized over their respective useful lives (ranging from 2 to 30 years). Information regarding intangible assets included in other assets on our Consolidated Balance Sheets is as follows:

(DOLLARS IN THOUSANDS)	AUGUST 31, 2016			AUGUST 31, 2015		
	CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET	CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET
Customer lists	\$ 51,554	\$ (15,550)	\$ 36,004	\$ 70,925	\$ (30,831)	\$ 40,094
Trademarks and other intangible assets	35,015	(26,253)	8,762	42,688	(32,134)	10,554
Total intangible assets	\$ 86,569	\$ (41,803)	\$ 44,766	\$ 113,613	\$ (62,965)	\$ 50,648

During the years ended August 31, 2016 and 2015, intangible assets acquired totaled \$2.8 million and \$0.8 million, respectively, and were primarily within our Ag segment.

Intangible assets amortization expense for the years ended August 31, 2016, 2015 and 2014, was \$6.1 million, \$7.3 million and \$9.7 million, respectively. The estimated annual amortization expense related to intangible

assets subject to amortization for the next five years is as follows:

(DOLLARS IN THOUSANDS)	
Year 1	\$ 4,411
Year 2	4,081
Year 3	4,079
Year 4	3,793
Year 5	3,644
Thereafter	24,662
Total	\$ 44,670

The costs of turnarounds in our Energy segment are deferred when incurred and amortized on a straight-line basis over the period of time estimated to lapse until the next turnaround occurs, which is generally 2 to 4 years. Capitalized amounts are included in other assets on our Consolidated Balance Sheets and amortization expense related to turnaround costs is included in cost of goods sold in our Consolidated Statements of Operations. Activity related to capitalized major maintenance costs is summarized below:

(DOLLARS IN THOUSANDS)	BALANCE AT BEGINNING OF YEAR	COST DEFERRED	AMORTIZATION	BALANCE AT END OF YEAR
2016	\$ 241,588	\$ 949	\$ (73,483)	\$ 169,054
2015	67,643	219,898	(45,953)	241,588
2014	109,408	3,305	(45,070)	67,643

Notes Payable and Long-Term Debt

Our notes payable and long-term debt are subject to various restrictive requirements for maintenance of minimum consolidated net worth and other financial ratios. We were in compliance with our debt covenants as of August 31, 2016.

Notes Payable

Notes payable as of August 31, 2016 and 2015, consisted of the following:

(DOLLARS IN THOUSANDS)	WEIGHTED-AVERAGE INTEREST RATE		2016	2015
	2016	2015		
Notes payable (a)	1.72%	2.33%	\$ 1,803,174	\$ 813,717
CHS Capital notes payable (b)	1.31%	1.05%	928,305	351,661
Total notes payable			\$2,731,479	\$ 1,165,378

(a) In September 2015, we amended and restated our primary committed line of credit which is a \$3.0 billion five-year, unsecured revolving credit facility with a syndication of domestic and international banks that expires in September 2020. The outstanding balance on this facility was \$700.0 million as of August 31, 2016. There was no outstanding balance on the predecessor facility as of August 31, 2015. Amounts borrowed under this facility primarily bear interest at base rates (or London Interbank Offered Rates ("LIBOR")) plus applicable margins ranging from 0.00% to 1.45%.

In December 2015, we entered into three bilateral, uncommitted revolving credit facilities with an aggregate capacity of \$1.3 billion. As of August 31, 2016, the aggregate capacity is \$600 million. Amounts borrowed under these short-term lines are used to fund our working capital and bear interest at base rates (or London Interbank Offered Rates ("LIBOR")) plus applicable margins ranging from 0.25% to 1.00%. As of August 31, 2016, outstanding borrowings under these facilities were \$300.0 million.

In addition to our primary revolving line of credit, we have a three-year \$325.0 million committed revolving pre-export credit facility for CHS Agronegocio Industria e Comercio Ltda ("CHS Agronegocio"), our wholly-owned subsidiary, to provide financing for its working capital needs arising from its purchases and sales of grains, fertilizers and other agricultural products which expires in April 2019. As of August 31, 2016, the outstanding balance under the facility was \$260.0 million.

As of August 31, 2016, our wholly-owned subsidiaries, CHS Europe S.a.r.l and CHS Agronegocio, had uncommitted

lines of credit with \$290.1 million outstanding. In addition, our other international subsidiaries had lines of credit with a total of \$252.1 million outstanding as of August 31, 2016, of which \$27.7 million was collateralized.

We have two commercial paper programs with an aggregate capacity of \$125.0 million, with two banks participating in our revolving credit facilities. Terms of our credit facilities do not allow them to be used to pay principal under a commercial paper facility. On August 31, 2016 we had no commercial paper outstanding.

Miscellaneous short-term notes payable totaled \$1.0 million as of August 31, 2016.

(b) Cofina Funding, LLC ("Cofina Funding"), a wholly-owned subsidiary of CHS Capital, has available credit totaling \$850.0 million as of August 31, 2016, under note purchase agreements with various purchasers and through the issuance of short-term notes payable. CHS Capital and CHS Inc. both sell eligible receivables they have originated to Cofina Funding, which are then pledged as collateral under the note purchase agreements. The notes payable issued by Cofina Funding bear interest at variable rates based on commercial paper with a weighted average rate of 1.40% as of August 31, 2016. There were \$550.0 million in borrowings by Cofina Funding utilizing the issuance of commercial paper under the note purchase agreements as of August 31, 2016.

CHS Capital has available credit under master participation agreements with numerous counterparties. Borrowings under these agreements are accounted for as secured borrowings and bear interest at variable rates ranging from 1.90% to 2.50% as of August 31, 2016. As of August 31, 2016, the total funding commitment under these agreements was \$116.9 million, of which \$24.9 million was borrowed.

CHS Capital sells loan commitments it has originated to ProPartners Financial ("ProPartners") on a recourse basis. The total capacity for commitments under the ProPartners program is \$265.0 million. The total outstanding commitments under the program totaled \$183.5 million as of August 31, 2016, of which \$122.3 million was borrowed under these commitments with an interest rate of 1.67%.

CHS Capital borrows funds under short-term notes issued as part of a surplus funds program. Borrowings under this program are unsecured and bear interest at variable rates ranging from 0.10% to 0.90% as of August 31, 2016, and are due upon demand. Borrowings under these notes totaled \$231.2 million as of August 31, 2016.

Long-Term Debt

Amounts included in long-term debt on our Consolidated Balance Sheets as of August 31, 2016 and 2015 are presented in the table below.

(DOLLARS IN THOUSANDS)	2016	2015
5.59% unsecured term loans from cooperative and other banks, due in equal installments beginning in 2013 through 2018	\$ 45,000	\$ 75,000
6.18% unsecured notes \$400 million face amount, due in equal installments beginning in 2014 through 2018	160,000	240,000
5.60% unsecured notes \$60 million face amount, due in equal installments beginning in 2012 through 2018	13,846	23,077
5.78% unsecured notes \$50 million face amount, due in equal installments beginning in 2014 through 2018	20,000	30,000
4.00% unsecured notes \$100 million face amount, due in equal installments beginning in 2017 through 2021	100,000	100,000
4.08% unsecured notes \$130 million face amount, due in 2019 (a)	141,344	132,161
4.52% unsecured notes \$160 million face amount, due in 2021 (a)	162,633	164,654
4.67% unsecured notes \$130 million face amount, due in 2023 (a)	138,101	135,422
4.39% unsecured notes \$152 million face amount, due in 2023	152,000	—
3.85% unsecured notes \$80 million face amount, due in 2025	80,000	80,000
3.80% unsecured notes \$100 million face amount, due in 2025	100,000	100,000
4.58% unsecured notes \$150 million face amount, due in 2025	150,000	—
2.25% unsecured term loans from cooperative and other banks, due in 2025 (b)	300,000	—
4.82% unsecured notes \$80 million face amount, due in 2026	80,000	80,000
4.69% unsecured notes \$58 million face amount, due in 2027	58,000	—
4.74% unsecured notes \$95 million face amount, due in 2028	95,000	—
4.89% unsecured notes \$100 million face amount, due in 2031	100,000	—
4.71% unsecured notes \$100 million face amount, due in 2033	100,000	100,000
5.40% unsecured notes \$125 million face amount, due in 2036	125,000	—
Other notes and contracts with interest rates from 1.30% to 15.25%	76,147	44,909
Capital lease obligations	105,708	125,894
Total long-term debt	2,302,779	1,431,117
Less current portion	214,329	170,309
Long-term portion	\$ 2,088,450	\$ 1,260,808

(a) We have entered into interest rate swaps designated as fair value hedging relationships with these notes. Changes in the fair value of the swaps are recorded each period with a corresponding adjustment to the carrying value of the debt. See Note 12, *Derivative Financial Instruments and Hedging Activities* for more information.

(b) Borrowings are variable under the agreement and bear interest at a base rate (or a LIBO rate) plus an applicable margin.

As of August 31, 2016, the carrying value of our long-term debt approximated its fair value, which is estimated to be \$2.1 billion based on quoted market prices of similar debt (a Level 2 fair value measurement based on the classification hierarchy of ASC Topic 820, *Fair Value Measurement*). We have outstanding interest rate swaps designated as fair value hedges of select portions of our fixed-rate debt. During fiscal 2016, we recorded corresponding fair value adjustments of \$9.8 million, which are included in the amounts in the table above. See Note 12, *Derivative Financial Instruments and Hedging Activities* for additional information.

In September 2015, we entered into a ten-year term loan with a syndication of banks. The agreement provides for committed term loans in an amount up to \$600.0 million. The full amount was drawn down in January 2016. Amounts drawn under this agreement that are subsequently repaid or prepaid may not be reborrowed. Principal on the term loans is payable in full on September 4, 2025. Borrowings under the agreement bear interest at a base rate (or a LIBO rate) plus an applicable margin, or at a fixed rate of interest determined and quoted by the administrative agent under the agreement in its sole and absolute discretion from time to time. The applicable margin is based on our leverage ratio and ranges between 1.50% and 2.00% for LIBO rate loans and

SEVEN: Notes Payable and Long-Term Debt, continued

between 0.50% and 1.00% for base rate loans. As of August 31, 2016, \$300.0 million was outstanding under this agreement.

In January 2016, we consummated a private placement of long-term notes in the aggregate principal amount of \$680.0 million with certain accredited investors, which long-term notes are layered into six series which are included in the table above.

In June 2016, we amended the ten-year term loan so that \$300.0 million of the \$600.0 million loan balance possesses a revolving feature, whereby we can pay down and re-advance an amount up to the referenced \$300.0 million. The revolving feature matures on September 1, 2017, and the total funded loan balance on that day reverts to a non-revolving term loan. No other material changes were made to the original terms and conditions of the ten-year term loan.

Long-term debt outstanding as of August 31, 2016 has aggregate maturities, excluding fair value adjustments and capital leases (see Note 5, *Property, Plant and Equipment* for a schedule of minimum future lease payments under capital leases), as follows:

(DOLLARS IN THOUSANDS)	
2017	\$ 176,403
2018	177,539
2019	150,142
2020	20,142
2021	180,142
Thereafter	1,470,384
Total	\$ 2,174,752

The following table presents the components of interest expense, net for the years ended August 31, 2016, 2015

and 2014. We have previously revised amounts for the year ended August 31, 2014 in this table to include interest expense related to capital lease obligations that were previously accounted for as operating leases. See Note 18, *Correction of Immaterial Errors* for more information on the nature and amounts of these revisions.

(DOLLARS IN THOUSANDS)	2016	2015	2014
Interest expense	\$ 144,047	\$ 93,152	\$ 84,925
Interest—purchase of CHS McPherson noncontrolling interests	—	34,810	70,843
Capitalized interest	(30,343)	(57,303)	(8,528)
Interest income	(38,357)	(10,326)	(6,987)
Interest expense, net	\$ 75,347	\$ 60,333	\$ 140,253

In fiscal 2015, we entered into forward-starting interest rate swaps designated as cash flow hedging instruments that were terminated in fiscal 2016 as the issuance of the underlying debt was no longer probable. As a result, a \$3.7 million loss was reclassified from accumulated other comprehensive loss into net income. This pre-tax loss is included as a component of interest expense in our Consolidated Statement of Operations for the year ended August 31, 2016.

In fiscal 2013, we entered into derivative contracts designated as cash flow hedging instruments that were terminated in fiscal 2014 as the issuance of the underlying debt was no longer probable. As a result, a \$13.5 million gain was reclassified from accumulated other comprehensive loss into net income. This pre-tax gain is included as a component of interest expense in our Consolidated Statement of Operations for the year ended August 31, 2014.

EIGHT

Income Taxes

The provision for income taxes for the years ended August 31, 2016, 2015 and 2014 is as follows:

(DOLLARS IN THOUSANDS)	2016	2015	2014
Current:			
Federal	\$ 3,386	\$ (47,695)	\$ 38,653
State	3,972	3,891	31,203
Foreign	12,729	1,335	2,837
	20,087	(42,469)	72,693
Deferred:			
Federal	(30,758)	29,348	(23,444)
State	8,512	(2,799)	(1,893)
Foreign	(1,932)	3,755	940
	(24,178)	30,304	(24,397)
Total	\$ (4,091)	\$ (12,165)	\$ 48,296

Deferred taxes are comprised of basis differences related to investments, accrued liabilities and certain federal and state tax credits.

Domestic income before income taxes was \$490.8 million, \$824.9 million, and \$1.2 billion for the years ended August 31, 2016, 2015 and 2014, respectively. Foreign activity made up the difference between the total income before income taxes and the domestic amounts.

Deferred tax assets and liabilities as of August 31, 2016 and 2015 are as follows:

(DOLLARS IN THOUSANDS)	2016	2015
Deferred tax assets:		
Accrued expenses	\$ 87,251	\$ 96,270
Postretirement health care and deferred compensation	111,983	89,934
Tax credit carryforwards	143,252	109,756
Loss carryforwards	155,966	85,860
Other	64,669	68,625
Deferred tax assets valuation	(194,277)	(98,024)
Total deferred tax assets	368,844	352,421
Deferred tax liabilities:		
Pension	26,516	20,732
Investments	109,610	98,291
Major maintenance	4,970	36,135
Property, plant and equipment	679,266	654,057
Other	33,779	25,836
Total deferred tax liabilities	854,141	835,051
Net deferred tax liabilities	\$ 485,297	\$ 482,630

We have total gross loss carry forwards of \$676.6 million, of which \$425.7 million will expire over periods ranging from fiscal 2017 to fiscal 2038. The remainder will carry forward indefinitely. Based on estimates of future taxable profits and losses in certain foreign tax jurisdictions, we determined that a valuation allowance was required for specific foreign loss carry forwards as of August 31, 2016. If these estimates prove inaccurate, a change in the valuation allowance, up or down, could be required in the future. During fiscal 2016, valuation allowances related to foreign operations increased by \$40.6 million due to net operating loss carry forwards and other timing differences. CHS McPherson's (formerly known as NCRA) gross state tax credit carry forwards for income tax are approximately \$133.5 million and \$62.2 million as of August 31, 2016, and 2015, respectively. During the year ended August 31, 2016, the valuation allowance for CHS McPherson increased by \$55.6 million, net of tax, due to a change in the amount of state tax credits that are estimated to be utilized. The significant increase in state tax credit carry forwards is the result of the refinery coker at CHS McPherson being placed in service during fiscal 2016, resulting in a corresponding increase in valuation allowance. CHS McPherson's valuation allowance on Kansas state credits is necessary due to the limited amount of Kansas taxable income generated by the combined group on an annual basis.

Our alternative minimum tax credit of \$5.6 million will not expire. Our general business credits of \$64.5 million, comprised primarily of low sulfur diesel credits, will begin to expire on August 31, 2027. Our state tax credits of \$133.5 million will begin to expire on August 31, 2018.

During the fourth quarter of fiscal 2016, we elected to early adopt ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which requires deferred tax liabilities and assets to be classified as non-current in a classified statement of financial position. Our adoption of ASU No. 2015-17 is done on a prospective basis. As of August 31, 2016, net deferred tax assets of \$2.5 million were included in other assets. As of August 31, 2015, net deferred tax assets of \$85.0 million and \$1.6 million were included in other current assets and other assets, respectively.

EIGHT: *Income Taxes, continued*

The reconciliation of the statutory federal income tax rates to the effective tax rates for the years ended August 31, 2016, 2015 and 2014 is as follows:

	2016	2015	2014
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal income tax benefit	0.4	(0.5)	1.6
Patronage earnings	(23.2)	(29.0)	(20.5)
Domestic production activities deduction	(13.2)	(5.6)	(10.0)
Export activities at rates other than the U.S. statutory rate	1.5	(0.2)	1.2
Valuation allowance	19.6	(0.1)	1.7
Tax credits	(11.8)	(0.8)	(3.1)
Crack spread contingency	(5.0)	(1.7)	(0.6)
Other	(4.3)	1.3	(1.0)
Effective tax rate	(1.0)%	(1.6)%	4.3%

During fiscal 2016, we recorded a deferred income tax benefit of \$25.6 million due to a settlement with the Internal Revenue Service on a fiscal 2006 and 2007 tax matter.

We file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. Our uncertain tax positions are affected by the tax years that are under audit or remain subject to examination by the relevant taxing authorities. In addition to the current year, fiscal 2007 through 2015 remain subject to examination, at least for certain issues.

We account for our income tax provisions in accordance with ASC Topic 740, *Income Taxes*, which prescribes a minimum threshold that a tax provision is required to meet before being recognized in our consolidated financial statements. This interpretation requires us to recognize in our consolidated financial statements tax positions determined more likely than not to be sustained upon examination, based on the technical merits

of the position. Reconciliation of the gross beginning and ending amounts of unrecognized tax benefits for the periods presented follows:

(DOLLARS IN THOUSANDS)	2016	2015	2014
Balance at beginning of period	\$ 72,181	\$ 72,181	\$ 67,271
Additions attributable to current year tax positions	1,387	—	—
Additions attributable to prior year tax positions	—	—	35,718
Reductions attributable to prior year tax positions	(36,463)	—	(9,867)
Reductions attributable to statute expiration	—	—	(20,941)
Balance at end of period	\$ 37,105	\$ 72,181	\$ 72,181

During fiscal 2016, we decreased our unrecognized tax benefits due to the settlement with the Internal Revenue Service mentioned above. In addition, we increased our unrecognized tax benefits for excise tax credits related to the blending and sale of renewable fuels deducted for income taxes.

If we were to prevail on all tax positions taken relating to uncertain tax positions, all of the unrecognized tax benefits would benefit the effective tax rate. We do not believe it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

We recognize interest and penalties related to unrecognized tax benefits in our provision for income taxes. No amounts were recognized in our Consolidated Statements of Operations for interest related to unrecognized tax benefits for the years ended August 31, 2016, 2015 and 2014. We recorded no interest payable related to unrecognized tax benefits on our Consolidated Balance Sheets as of August 31, 2016 and 2015.

NINE

Equities

In accordance with our bylaws and by action of the Board of Directors, annual net earnings from patronage sources are distributed to consenting patrons following the close of each fiscal year, and are based on amounts using financial statement earnings. The cash portion of the qualified patronage distribution is determined annually by the Board of Directors, with the balance issued in the form of qualified and non-qualified capital equity certificates. Total qualified patronage distributions refunds for fiscal 2016 are estimated to be \$279.0 million, with the cash portion estimated to be \$111.6 million. No portion will be issued in the form of non-qualified capital equity certificates. The actual patronage distributions and cash portion for fiscal 2015, 2014, and 2013 were \$627.2 million (\$251.7 million in cash), \$821.5 million (\$271.2 million in cash), and \$841.1 million (\$286.8 million in cash), respectively.

Annual net savings from patronage or other sources may be added to the unallocated capital reserve or, upon action by the Board of Directors, may be allocated to members in the form of nonpatronage equity certificates. The Board of Directors authorized, in accordance with our bylaws, that 10% of the earnings from patronage business for fiscal 2016, 2015, and 2014 be added to our capital reserves.

Redemptions are at the discretion of the Board of Directors. Redemptions of capital equity certificates approved by the Board of Directors are divided into two pools, one for non-individuals (primarily member cooperatives) who may participate in an annual retirement program for qualified equities held by them and another for individual members who are eligible for equity redemptions at age 70 or upon death. Beginning with

fiscal 2017 patronage (for which distributions will be made in fiscal 2018), individuals will also be able to participate in an annual retirement program similar to the one that was previously only available to non-individual members. In accordance with authorization from the Board of Directors, we expect total redemptions related to the year ended August 31, 2016 that will be distributed in fiscal 2017, to be approximately \$40.0 million. Additionally, we expect to redeem approximately \$18.6 million of redemptions related to the year ended August 31, 2015 earnings that are carried over from the previous year's authorization which had not been previously distributed. The redemptions will also be distributed in fiscal 2017 and are classified as a current liability on our August 31, 2016 Consolidated Balance Sheet. For the years ended August 31, 2016, 2015 and 2014, we redeemed in cash, equities in accordance with authorization from the Board of Directors, in the amounts of \$23.9 million, \$128.9 million and \$99.6 million, respectively.

In March 2016, we redeemed approximately \$76.8 million of patrons' equities by issuing 2,693,195 shares of Class B Cumulative Redeemable Preferred Stock, Series 1 ("Class B Series 1 Preferred Stock"), with a total redemption value of \$67.3 million, excluding accumulated dividends. Each share of Class B Series 1 Preferred Stock was issued in redemption of \$28.50 of patrons' equities in the form of capital equity certificates. Additionally, in fiscal 2014, we redeemed \$200.0 million of patrons' equities by issuing 6,752,188 shares of our Class B Series 1 Preferred Stock, with each share being issued in redemption of \$29.62 of patrons' equities in the form of members' equity certificates.

NINE: Equities, continued

Preferred Stock

The following is a summary of our outstanding preferred stock as of August 31, 2016, all of which are listed on the Global Select Market of NASDAQ:

(DOLLARS IN MILLIONS)	NASDAQ SYMBOL	ISSUANCE DATE	SHARES OUTSTANDING	REDEMPTION VALUE	NET PROCEEDS (a)	DIVIDEND RATE (b) (c)	DIVIDEND PAYMENT FREQUENCY	REDEEMABLE BEGINNING (d)
8% Cumulative Redeemable	CHSCP	(e)	12,272,003	\$306.8	\$311.2	8.00%	Quarterly	7/18/2023
Class B Cumulative Redeemable Series 1	CHSCO	(f)	20,764,558	\$519.1	\$549.4	7.875%	Quarterly	9/26/2023
Class B Reset Rate Cumulative Redeemable Series 2	CHSCN	3/11/2014	16,800,000	\$420.0	\$406.2	7.10%	Quarterly	3/31/2024
Class B Reset Rate Cumulative Redeemable Series 3	CHSCM	9/15/2014	19,700,000	\$492.5	\$476.7	6.75%	Quarterly	9/30/2024
Class B Cumulative Redeemable Series 4	CHSCL	1/21/2015	20,700,000	\$517.5	\$501.0	7.50%	Quarterly	1/21/2025

(a) Includes patrons' equities redeemed with preferred stock.

(b) The Class B Reset Rate Cumulative Redeemable Preferred Stock, Series 2 accumulates dividends at a rate of 7.10% per year until March 31, 2024, and then at a rate equal to the three-month LIBOR plus 4.298%, not to exceed 8.00% per annum, subsequent to March 31, 2024.

(c) The Class B Reset Rate Cumulative Redeemable Preferred Stock, Series 3 accumulates dividends at a rate of 6.75% per year until September 30, 2024, and then at a rate equal to the three-month LIBOR plus 4.155%, not to exceed 8.00% per annum, subsequent to September 30, 2024.

(d) Preferred stock is redeemable for cash at our option, in whole or in part, at a per share price equal to the per share liquidation preference of \$25.00 per share, plus all dividends accumulated and unpaid on that share to and including the date of redemption, beginning on the dates set forth in this column.

(e) The 8% Cumulative Redeemable Preferred Stock was issued at various times from 2003-2010.

(f) 11,319,175 shares of Class B Series 1 Preferred Stock were issued on September 26, 2013; 6,752,188 shares were issued on August 25, 2014; and an additional 2,693,195 shares were issued on March 31, 2016.

In June 2014, we filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission ("SEC"). Under the shelf registration statement, which has been declared effective by the SEC, we may offer and sell, from time to time, up to \$2.0 billion of our Class B Cumulative Redeemable Preferred Stock over a three-year period. As of August 31, 2016, \$990.0 million of our Class B Cumulative Redeemable Preferred Stock

remained available for issuance under the shelf registration statement.

We made dividend payments on our preferred stock of \$163.3 million, \$133.7 million, and \$50.8 million, during the years ended August 31, 2016, 2015 and 2014, respectively. As of August 31, 2016 we have no authorized but unissued shares of preferred stock.

Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive income (loss) by component, net of tax, for the years ended August 31, 2016, 2015 and 2014 are as follows:

(DOLLARS IN THOUSANDS)	PENSION AND OTHER POSTRETIREMENT BENEFITS	UNREALIZED NET GAIN (LOSS) ON AVAILABLE FOR SALE INVESTMENTS	CASH FLOW HEDGES	FOREIGN CURRENCY TRANSLATION ADJUSTMENT	TOTAL
Balance as of August 31, 2013	\$ (165,611)	\$ 2,370	\$ 11,685	\$ (5,311)	\$ (156,867)
Current period other comprehensive income (loss), net of tax	(90)	2,028	(6,011)	(1,957)	(6,030)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	13,849	—	(8,396)	687	6,140
Net other comprehensive income (loss), net of tax	13,759	2,028	(14,407)	(1,270)	110
Balance as of August 31, 2014	(151,852)	4,398	(2,722)	(6,581)	(156,757)
Current period other comprehensive income (loss), net of tax	(33,238)	(242)	(3,394)	(34,729)	(71,603)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	13,361	—	792	—	14,153
Net other comprehensive income (loss), net of tax	(19,877)	(242)	(2,602)	(34,729)	(57,450)
Balance as of August 31, 2015	(171,729)	4,156	(5,324)	(41,310)	(214,207)
Current period other comprehensive income (loss), net of tax	(6,330)	1,500	(6,999)	(2,200)	(14,029)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	12,913	—	3,127	470	16,510
Net other comprehensive income (loss), net of tax	6,583	1,500	(3,872)	(1,730)	2,481
Balance as of August 31, 2016	\$ (165,146)	\$ 5,656	\$ (9,196)	\$ (43,040)	\$ (211,726)

Amounts reclassified from accumulated other comprehensive income (loss) were related to pension and other postretirement benefits, cash flow hedges and foreign currency translation adjustments, and were recorded to net income. Pension and other postretirement reclassifications include amortization of net actuarial loss, prior service credit and transition amounts and are recorded as marketing, general and administrative expenses (see Note 10, *Benefit Plans* for further information).

During the third quarter of fiscal 2016, interest rate swaps, which were previously accounted for as cash flow hedges, were terminated as the issuance of the underlying debt was no longer probable. As a result, a

\$3.7 million loss was reclassified from accumulated other comprehensive loss into net income. This pre-tax loss is included as a component of interest expense, net in our Consolidated Statement of Operations for the year ended August 31, 2016.

In fiscal 2014, interest rate swaps, which were previously accounted for as cash flow hedges, were terminated as the issuance of the underlying debt was no longer probable. As a result, a \$13.5 million gain was reclassified from accumulated other comprehensive loss into net income. This pre-tax gain is included as a component of interest expense, net in our Consolidated Statement of Operations for the year ended August 31, 2014.

Benefit Plans

We have various pension and other defined benefit and defined contribution plans, in which substantially all employees may participate. We also have non-qualified supplemental executive and Board retirement plans.

Financial information on changes in benefit obligation, plan assets funded and balance sheets status as of August 31, 2016 and 2015 is as follows:

(DOLLARS IN THOUSANDS)	QUALIFIED PENSION BENEFITS		NON-QUALIFIED PENSION BENEFITS		OTHER BENEFITS	
	2016	2015	2016	2015	2016	2015
Change in benefit obligation:						
Benefit obligation at beginning of period	\$ 730,795	\$ 720,893	\$ 33,184	\$ 37,983	\$ 41,997	\$ 44,318
Service cost	37,533	36,006	1,035	875	1,412	1,513
Interest cost	30,773	28,046	1,406	1,414	1,709	1,489
Actuarial (gain) loss	361	20,993	(3,333)	393	(4,892)	1,563
Assumption change	57,385	(16,297)	2,679	(1,082)	2,602	(5,136)
Plan amendments	411	—	(1,045)	—	(4,495)	—
Settlements	—	—	—	(5,715)	—	—
Benefits paid	(44,509)	(58,846)	(1,230)	(684)	(1,554)	(1,750)
Benefit obligation at end of period	\$ 812,749	\$ 730,795	\$ 32,696	\$ 33,184	\$ 36,779	\$ 41,997
Change in plan assets:						
Fair value of plan assets at beginning of period	\$ 796,379	\$ 822,125	\$ —	\$ —	\$ —	\$ —
Actual gain (loss) on plan assets	88,089	(6,065)	—	—	—	—
Company contributions	43,306	39,165	1,230	6,399	1,554	1,750
Settlements	—	—	—	(5,715)	—	—
Benefits paid	(44,509)	(58,846)	(1,230)	(684)	(1,554)	(1,750)
Fair value of plan assets at end of period	\$ 883,265	\$ 796,379	\$ —	\$ —	\$ —	\$ —
Funded status at end of period	\$ 70,516	\$ 65,584	\$ (32,696)	\$ (33,184)	\$ (36,779)	\$ (41,997)
Amounts recognized on balance sheet:						
Non-current assets	\$ 70,594	\$ 65,927	\$ —	\$ —	\$ —	\$ —
Accrued benefit cost:						
Current liabilities	—	—	(1,880)	(1,752)	(2,490)	(2,708)
Non-current liabilities	(78)	(343)	(30,816)	(31,432)	(34,289)	(39,289)
Ending balance	\$ 70,516	\$ 65,584	\$ (32,696)	\$ (33,184)	\$ (36,779)	\$ (41,997)
Amounts recognized in accumulated other comprehensive loss (pretax):						
Prior service cost (credit)	\$ 4,021	\$ 5,217	\$ (641)	\$ 631	\$ (4,847)	\$ (472)
Net (gain) loss	275,146	276,450	7,815	9,161	(12,235)	(10,409)
Ending balance	\$ 279,167	\$ 281,667	\$ 7,174	\$ 9,792	\$ (17,082)	\$ (10,881)

The accumulated benefit obligation of the qualified pension plans was \$766.2 million and \$693.9 million at August 31, 2016 and 2015, respectively. The accumulated benefit obligation of the non-qualified pension plans was \$23.7 million and \$23.6 million at August 31, 2016 and 2015, respectively.

One significant assumption for pension plan accounting is the discount rate. Historically, we have selected a discount rate each year (as of our fiscal year-end measurement date) for our plans based upon a high-quality corporate bond yield curve for which the cash flows from coupons and maturities match the year-by-year

projected benefit cash flows for our pension plans. The corporate bond yield curve is comprised of high-quality fixed income debt instruments available at the measurement date. At August 31, 2016, we changed to use an individual spot-rate approach, discussed below. This alternative approach focuses on measuring the service cost and interest cost components of net periodic benefit cost by using individual spot rates derived from a high-quality corporate bond yield curve and matched with separate cash flows for each future year instead of a single weighted-average discount rate approach.

As of August 31, 2016, we changed the method used to estimate the service and interest cost components of net periodic benefit cost for pension and other post retirement benefits. This change in methodology is expected to result in a decrease in the service and interest cost components for the pension and other post retirement benefit costs beginning in fiscal 2017.

We historically estimated these service and interest cost components utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. Beginning in 2017, we elected to utilize a full-yield curve approach in the determination of these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. We elected to make this change to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change does not affect the measurement of our total benefit obligations at August 31, 2016, the net periodic cost recognized in fiscal 2016 or the ultimate benefit payment that must be made in the future. We have accounted for this change as a change in accounting estimate and, accordingly, have accounted for it on a prospective basis.

Components of net periodic benefit costs for the years ended August 31, 2016, 2015 and 2014 are as follows:

(DOLLARS IN THOUSANDS)	QUALIFIED PENSION BENEFITS			NON-QUALIFIED PENSION BENEFITS			OTHER BENEFITS		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Components of net periodic benefit costs:									
Service cost	\$ 37,533	\$ 36,006	\$ 30,417	\$ 1,035	\$ 875	\$ 860	\$ 1,412	\$ 1,513	\$ 1,729
Interest cost	30,773	28,046	29,900	1,406	1,414	1,660	1,709	1,489	1,918
Expected return on assets	(48,055)	(49,746)	(47,655)	—	—	—	—	—	—
Settlement of retiree obligations	—	—	—	—	1,635	—	—	—	—
Prior service cost (credit) amortization	1,606	1,631	1,593	228	228	229	(120)	(426)	(493)
Actuarial loss amortization	19,016	19,621	18,228	692	1,058	957	(464)	(431)	(180)
Net periodic benefit cost	\$ 40,873	\$ 35,558	\$ 32,483	\$ 3,361	\$ 5,210	\$ 3,706	\$ 2,537	\$ 2,145	\$ 2,974
Weighted-average assumptions to determine the net periodic benefit cost:									
Discount rate	4.20%	4.00%	4.80%	4.20%	4.00%	4.50%	4.20%	4.20%	3.75%
Expected return on plan assets	6.00%	6.50%	6.75%	N/A	N/A	N/A	N/A	N/A	N/A
Rate of compensation increase	4.90%	4.90%	4.85%	4.90%	5.15%	4.75%	N/A	N/A	N/A
Weighted-average assumptions to determine the benefit obligations:									
Discount rate	3.60%	4.20%	4.00%	3.30%	4.50%	4.50%	3.30%	3.75%	4.60%
Rate of compensation increase	5.60%	4.90%	4.90%	5.60%	4.80%	4.80%	N/A	N/A	N/A

TEN: *Benefit Plans, continued*

The estimated amortization in fiscal 2017 from accumulated other comprehensive loss into net periodic benefit cost is as follows:

(DOLLARS IN THOUSANDS)	QUALIFIED PENSION BENEFITS	NON-QUALIFIED PENSION BENEFITS	OTHER BENEFITS
Amortization of prior service cost (benefit)	\$ 1,563	\$ 19	\$(565)
Amortization of net actuarial (gain) loss	26,969	546	(913)

For measurement purposes, a 7.6% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended August 31, 2016. The rate was assumed to decrease gradually to 4.5% by 2025 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in the assumed health care cost trend rates would have the following effects:

(DOLLARS IN THOUSANDS)	1% INCREASE	1% DECREASE
Effect on total of service and interest cost components	\$ 280	\$(240)
Effect on postretirement benefit obligation	2,700	(2,300)

We provide defined life insurance and health care benefits for certain retired employees and Board of Directors participants. The plan is contributory based on years of service and family status, with retiree contributions adjusted annually.

We have other contributory defined contribution plans covering substantially all employees. Total contributions by us to these plans were \$29.5 million, \$27.4 million and \$24.6 million, for the years ended August 31, 2016, 2015 and 2014, respectively.

We voluntarily contributed \$43.3 million to qualified pension plans in fiscal 2016. Based on the funded status of the qualified pension plans as of August 31, 2016, we do not believe we will be required to contribute to these plans in fiscal 2017, although we may voluntarily elect to do so. We expect to pay \$4.4 million to participants of the non-qualified pension and postretirement benefit plans during fiscal 2017.

Our retiree benefit payments, which reflect expected future service, are anticipated to be paid as follows:

(DOLLARS IN THOUSANDS)	QUALIFIED PENSION BENEFITS	NON-QUALIFIED PENSION BENEFITS	OTHER BENEFITS GROSS
2017	\$ 48,399	\$ 1,880	\$ 2,490
2018	62,579	2,360	2,560
2019	68,104	2,360	2,670
2020	67,913	2,350	2,760
2021	71,891	2,540	2,850
2022-2026	400,300	16,370	14,690

We have trusts that hold the assets for the defined benefit plans. CHS has a qualified plan committee that sets investment guidelines with the assistance of external consultants. Investment objectives for the plans' assets are as follows:

- optimization of the long-term returns on plan assets at an acceptable level of risk;
- maintenance of a broad diversification across asset classes and among investment managers; and
- focus on long-term return objectives.

Asset allocation targets promote optimal expected return and volatility characteristics given the long-term time horizon for fulfilling the obligations of the pension plans. Our pension plans' investment policy strategy is such that liabilities match assets. This is being accomplished through the asset portfolio mix by reducing volatility and de-risking the plans. The plans' target allocation percentages range between 35% and 55% for fixed income securities, and range between 45% and 65% for equity securities. An annual analysis of the risk versus the return of the investment portfolio is conducted to justify the expected long-term rate of return assumption. We generally use long-term historical return information for the targeted asset mix identified in asset and liability studies. Adjustments are made to the expected long-term rate of return assumption, when deemed necessary, based upon revised expectations of future investment performance of the overall investment markets.

The discount rate reflects the rate at which the associated benefits could be effectively settled as of the measurement date. In estimating this rate, we look at rates of return on fixed-income investments of similar duration

to the liabilities in the plans that receive high, investment-grade ratings by recognized ratings agencies.

The investment portfolio contains a diversified portfolio of investment categories, including domestic and international equities, fixed-income securities and real estate. Securities are also diversified in terms of domestic and

international securities, short and long-term securities, growth and value equities, large and small cap stocks, as well as active and passive management styles.

The committees believe that with prudent risk tolerance and asset diversification, the plans should be able to meet pension obligations in the future.

Our pension plans' recurring fair value measurements by asset category at August 31, 2016 and 2015 are presented in the tables below:

(DOLLARS IN THOUSANDS)	2016			TOTAL
	LEVEL 1	LEVEL 2	LEVEL 3	
Cash and cash equivalents	\$ 4,841	\$ —	\$ —	\$ 4,841
Equities:				
Mutual funds	507	—	—	507
Common/collective trust at net asset value (1)	—	—	—	228,717
Fixed income securities:				
Common/collective trust at net asset value (1)	—	—	—	551,604
Partnership and joint venture interests measured at net asset value (1)	—	—	—	95,744
Other assets measured at net asset value (1)	—	—	—	1,852
Total	\$ 5,348	\$ —	\$ —	\$ 883,265

(DOLLARS IN THOUSANDS)	2015			TOTAL
	LEVEL 1	LEVEL 2	LEVEL 3	
Cash and cash equivalents	\$ 4,882	\$ —	\$ —	\$ 4,882
Equities:				
Mutual funds	91,619	—	—	91,619
Common/collective trust at net asset value (1)	—	—	—	194,463
Fixed income securities:				
Mutual funds	133,556	20,560	—	154,116
Common/collective trust at net asset value (1)	—	—	—	296,684
Partnership and joint venture interests measured at net asset value (1)	—	—	—	52,640
Other assets measured at net asset value (1)	—	—	—	1,975
Total	\$ 230,057	\$ 20,560	\$ —	\$ 796,379

- (1) In accordance with ASC Topic 820-10, *Fair Value Measurements*, certain assets that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of net assets.

Definitions for valuation levels are found in Note 13, *Fair Value Measurements*. We use the following valuation methodologies for assets measured at fair value.

Mutual funds: Valued at quoted market prices, which are based on the net asset value of shares held by the plan at year end. Mutual funds traded in active markets

are classified within Level 1 of the fair value hierarchy. Certain of the mutual fund investments held by the plan have observable inputs other than Level 1 and are classified within Level 2 of the fair value hierarchy. Mutual funds measured at fair value using the net asset value per share practical expedient have not been categorized

TEN: *Benefit Plans, continued*

in the fair value hierarchy in accordance with ASC Topic 820-10, *Fair Value Measurement*.

Common/Collective Trusts: Common/Collective trusts primarily consist of equity and fixed income funds and are valued using other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risks, referenced indices, quoted prices in inactive markets, adjusted quoted prices in active markets, adjusted quoted prices on foreign equity securities that were adjusted in accordance with pricing procedures approved by the trust, etc.). Common/Collective trust investments can be redeemed daily and without restriction. Redemption of the entire investment balance generally requires a 45 to 60 day notice period. The equity funds provide exposure to large, mid and small cap U.S. equities, international large and small cap equities and emerging market equities. The fixed income funds provide exposure to U.S., international and emerging market debt securities. Common/Collective trusts measured at fair value using the net asset value per share practical expedient have not been categorized in the fair value hierarchy in accordance with ASC Topic 820-10, *Fair Value Measurement*.

Partnership and joint venture interests: Valued at the net asset value of shares held by the plan at year end as a practical expedient for fair value. The net asset value is based on the fair value of the underlying assets owned by the trust, minus its liabilities then divided by the number of units outstanding. Redemptions of these interests generally require a 45 to 60 day notice period. Partnerships and

joint venture interests measured at fair value using the net asset value per share practical expedient have not been categorized in the fair value hierarchy in accordance with ASC Topic 820-10, *Fair Value Measurement*.

Other assets: Other assets primarily includes real estate funds and hedge funds held in the asset portfolio of our U.S. defined benefit pension plans. Other funds measured at fair value using the net asset value per share practical expedient have not been categorized in the fair value hierarchy in accordance with ASC Topic 820-10, *Fair Value Measurement*.

We are one of approximately 400 employers that contribute to the Co-op Retirement Plan (“Co-op Plan”), which is a defined benefit plan constituting a “multiple employer plan” under the Internal Revenue Code of 1986, as amended, and a “multiemployer plan” under the accounting standards. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers;
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and
- If we choose to stop participating in the multiemployer plan, we may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Our participation in the Co-op Plan for the years ended August 31, 2016, 2015, and 2014 is outlined in the table below:

(DOLLARS IN THOUSANDS)		CONTRIBUTIONS OF CHS			SURCHARGE IMPOSED	EXPIRATION DATE OF COLLECTIVE BARGAINING AGREEMENT
PLAN NAME	EIN/PLAN NUMBER	2016	2015	2014		
Co-op Retirement Plan	01-0689331/001	\$1,862	\$2,021	\$2,079	N/A	N/A

Our contributions for the years stated above did not represent more than 5% of total contributions to the Co-op Plan as indicated in the Co-op Plan's most recently available annual report (Form 5500).

The Pension Protection Act of 2006 ("PPA") does not apply to the Co-op Plan because it is covered and defined as a single-employer plan. There is a special exemption for cooperative plans defining them as a the single-employer plan as long as the plan is maintained by more than one employer and at least 85% of the employers are rural cooperatives or cooperative organizations owned by agricultural producers. In the Co-op Plan, a "zone status" determination is not required, and therefore not determined. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employers. The

most recent financial statements available in 2016 and 2015 are for the Co-op Plan's year-end at March 31, 2015 and 2014, respectively. In total, the Co-op Plan was at least 80% funded on those dates based on the total plan assets and accumulated benefit obligations.

Because the provisions of the PPA do not apply to the Co-op Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

In addition to the contributions to the Co-op Plan listed above, total contributions to individually insignificant multi-employer pension plans were immaterial in fiscal 2016, 2015 and 2014.

ELEVEN

Segment Reporting

We are an integrated agricultural enterprise, providing grain, foods and energy resources to businesses and consumers on a global basis. We provide a wide variety of products and services, from initial agricultural inputs such as fuels, farm supplies, crop nutrients and crop protection products, to agricultural outputs that include grains and oilseeds, grain and oilseed processing and food products, and the production and marketing of ethanol. We define our operating segments in accordance with ASC Topic 280, *Segment Reporting*, to reflect the manner in which our chief operating decision maker, our Chief Executive Officer, evaluates performance and allocates resources in managing the business. We have aggregated those operating segments into four reportable segments: Energy, Ag, Nitrogen Production and Foods.

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

markets ethanol. Our Nitrogen Production segment consists solely of our equity method investment in CF Nitrogen, which was completed in February 2016 and which entitles us, pursuant to a supply agreement that we entered into with CF Nitrogen, to purchase granular urea and UAN annually from CF Nitrogen to a specified annual quantity. The addition of the Nitrogen Production segment had no impact on historically reported segment results and balances as this segment came into existence in fiscal 2016. Our Foods segment consists solely of our equity method investment in Ventura Foods. In prior years Ventura Foods was reported as a component of Corporate and Other because it was an insignificant operating segment. Historically reported segment results and balances have been revised to reflect the addition of the Foods segment. There were no changes to the composition of our Energy or Ag segments as a result of the addition of the Nitrogen Production or Foods segments. Corporate and Other primarily represents our non-consolidated wheat milling operations, as well as our business solutions operations, which consists of commodities hedging, insurance and financial services related to crop production.

ELEVEN: *Segment Reporting, continued*

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

Prior to fiscal 2015, our renewable fuels marketing business was included in our Energy segment and our renewable fuels production business was included in our Ag segment. At the beginning of fiscal 2015, we reorganized certain parts of our business to better align our ethanol supply chain. As a result, our renewable fuels marketing business is now managed together with our renewable fuels production business within our Ag segment. Prior period segment information below has been revised to reflect this change to ensure comparability.

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

Our revenues, assets and cash flows can be significantly affected by global market prices for commodities such

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

While our revenues and operating results are derived from businesses and operations which are wholly-owned and majority-owned, a portion of our business operations are conducted through companies in which we hold ownership interests of 50% or less and do not control the operations. We account for these investments primarily using the equity method of accounting, wherein we record our proportionate share of income or loss reported by the entity as equity income from investments, without consolidating the revenues and expenses of the entity in our Consolidated Statements of Operations. In our Ag segment, this principally includes our 50% ownership in TEMCO. In our Nitrogen Production segment, this consists of our 11.4% membership interest (based on product tons) in CF Nitrogen. In our Foods segment, this consists of our 50% ownership in Ventura Foods. In Corporate and Other, this principally includes our 12% ownership in Ardent Mills. See Note 4, *Investments* for more information on these entities.

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

Segment information for the years ended August 31, 2016, 2015 and 2014 is presented in the tables below. We have previously revised amounts for the year ended August 31, 2014 in the table below to include activity and amounts related to capital leases that were previously accounted for as operating leases. See Note 18, *Correction of Immaterial Errors* for more information on the nature and amounts of these revisions.

(DOLLARS IN THOUSANDS)	ENERGY	AG	NITROGEN PRODUCTION	FOODS	CORPORATE AND OTHER	RECONCILING AMOUNTS	TOTAL
For the year ended August 31, 2016:							
Revenues	\$ 5,789,307	\$ 24,849,634	\$ —	\$ —	\$ 92,725	\$ (384,463)	\$ 30,347,203
Operating earnings	248,173	52,334	(6,193)	(7,719)	23,601	—	310,196
(Gain) loss on investments	—	(6,157)	—	—	(3,095)	—	(9,252)
Interest expense, net	(22,531)	35,199	34,437	2,692	25,550	—	75,347
Equity (income) loss from investments	(4,739)	(7,644)	(74,700)	(75,175)	(13,519)	—	(175,777)
Income before income taxes	\$ 275,443	\$ 30,936	\$ 34,070	\$ 64,764	\$ 14,665	\$ —	\$ 419,878
Intersegment revenues	\$ (341,765)	\$ (40,336)	\$ —	\$ —	\$ (2,362)	\$ 384,463	\$ —
Capital expenditures	\$ 376,841	\$ 260,865	\$ —	\$ —	\$ 55,074	\$ —	\$ 692,780
Depreciation and amortization	\$ 193,525	\$ 230,172	\$ —	\$ —	\$ 23,795	\$ —	\$ 447,492
Total assets as of August 31, 2016	\$ 4,306,297	\$ 7,002,916	\$ 2,796,323	\$ 369,487	\$ 2,842,686	\$ —	\$ 17,317,709

(DOLLARS IN THOUSANDS)	ENERGY	AG	FOODS	CORPORATE AND OTHER	RECONCILING AMOUNTS	TOTAL
For the year ended August 31, 2015:						
Revenues	\$ 8,694,326	\$ 26,311,350	\$ —	\$ 74,828	\$ (498,062)	\$ 34,582,442
Operating earnings	523,451	190,860	(1,454)	2,555	—	715,412
(Gain) loss on investments	—	(2,875)	—	(2,364)	—	(5,239)
Interest expense, net	(12,350)	56,380	3,854	12,449	—	60,333
Equity (income) loss from investments	(2,330)	(12,293)	(67,955)	(25,272)	—	(107,850)
Income before income taxes	\$ 538,131	\$ 149,648	\$ 62,647	\$ 17,742	\$ —	\$ 768,168
Intersegment revenues	\$ (483,989)	\$ (11,403)	\$ —	\$ (2,670)	\$ 498,062	\$ —
Capital expenditures	\$ 696,825	\$ 417,950	\$ —	\$ 72,015	\$ —	\$ 1,186,790
Depreciation and amortization	\$ 148,292	\$ 192,438	\$ —	\$ 14,692	\$ —	\$ 355,422
Total assets as of August 31, 2015	\$ 4,624,471	\$ 7,814,689	\$ 347,748	\$ 2,441,404	\$ —	\$ 15,228,312

(DOLLARS IN THOUSANDS)	ENERGY	AG	FOODS	CORPORATE AND OTHER	RECONCILING AMOUNTS	TOTAL
For the year ended August 31, 2014:						
Revenues	\$ 12,181,212	\$ 31,022,507	\$ —	\$ 73,827	\$ (613,513)	\$ 42,664,033
Operating earnings	793,924	249,944	(1,292)	7,372	—	1,049,948
(Gain) loss on investments	—	(1,949)	—	(112,213)	—	(114,162)
Interest expense, net	69,522	60,742	5,419	4,570	—	140,253
Equity (income) loss from investments	(4,014)	(22,279)	(55,104)	(26,049)	—	(107,446)
Income before income taxes	\$ 728,416	\$ 213,430	\$ 48,393	\$ 141,064	\$ —	\$ 1,131,303
Intersegment revenues	\$ (600,433)	\$ (9,960)	\$ —	\$ (3,120)	\$ 613,513	\$ —
Capital expenditures	\$ 539,170	\$ 329,613	\$ —	\$ 50,293	\$ —	\$ 919,076
Depreciation and amortization	\$ 137,408	\$ 157,102	\$ —	\$ 11,737	\$ —	\$ 306,247

ELEVEN: Segment Reporting, continued

We have international sales, which are predominantly in our Ag segment. The following table presents our sales, based on the geographic locations in which the sales originated, for the years ended August 31, 2016, 2015 and 2014:

(DOLLARS IN MILLIONS)	2016	2015	2014
North America	\$ 23,276	\$ 27,821	\$ 38,287
South America	1,847	1,529	2,133
Europe, the Middle East and Africa (EMEA)	4,166	4,221	1,602
Asia Pacific (APAC)	1,058	1,011	642
Total	\$ 30,347	\$ 34,582	\$ 42,664

TWELVE

Derivative Financial Instruments and Hedging Activities

Our derivative instruments primarily consist of commodity and freight futures and forward contracts and, to a minor degree, may include foreign currency and interest rate swap contracts. These contracts are economic hedges of price risk, but we do not apply hedge accounting under ASC Topic 815, *Derivatives and Hedging*, except with respect to certain interest rate swap contracts which are accounted for as cash flow hedges or fair value hedges as described below. Derivative instruments are recorded on our Consolidated Balance Sheets at fair value as described in Note 13, *Fair Value Measurements*.

The following tables present the gross fair values of derivative assets, derivative liabilities, and margin deposits (cash collateral) recorded on our Consolidated Balance Sheets along with the related amounts permitted to be offset in accordance with U.S. GAAP. We have elected not to offset derivative assets and liabilities when we have the right of offset under ASC Topic 210-20, *Balance Sheet—Offsetting*; or when the instruments are subject to master netting arrangements under ASC Topic 815-10-45, *Derivatives and Hedging—Overall*.

(DOLLARS IN THOUSANDS)	AUGUST 31, 2016			
	GROSS AMOUNTS RECOGNIZED	CASH COLLATERAL	DERIVATIVE INSTRUMENTS	NET AMOUNTS
AMOUNTS NOT OFFSET ON THE CONSOLIDATED BALANCE SHEET BUT ELIGIBLE FOR OFFSETTING				
Derivative Assets:				
Commodity and freight derivatives	\$ 500,192	\$ —	\$ 23,689	\$ 476,503
Foreign exchange derivatives	21,551	—	9,187	12,364
Interest rate derivatives—hedge	22,078	—	—	22,078
Total	\$ 543,821	\$ —	\$ 32,876	\$ 510,945
Derivative Liabilities:				
Commodity and freight derivatives	\$ 491,302	\$ 811	\$ 23,689	\$ 466,802
Foreign exchange derivatives	22,289	—	9,187	13,102
Interest rate derivatives—non-hedge	8	—	—	8
Total	\$ 513,599	\$ 811	\$ 32,876	\$ 479,912

(DOLLARS IN THOUSANDS)	AUGUST 31, 2015			
	AMOUNTS NOT OFFSET ON THE CONSOLIDATED BALANCE SHEET BUT ELIGIBLE FOR OFFSETTING			
	GROSS AMOUNTS RECOGNIZED	CASH COLLATERAL	DERIVATIVE INSTRUMENTS	NET AMOUNTS
Derivative Assets:				
Commodity and freight derivatives	\$ 476,071	\$ —	\$ 58,401	\$ 417,670
Foreign exchange derivatives	23,154	—	11,682	11,472
Interest rate derivatives—hedge	14,216	—	—	14,216
Total	\$ 513,441	\$ —	\$ 70,083	\$ 443,358
Derivative Liabilities:				
Commodity and freight derivatives	\$ 427,052	\$ 11,482	\$ 58,401	\$ 357,169
Foreign exchange derivatives	37,598	—	11,682	25,916
Interest rate derivatives—hedge	6,058	—	—	6,058
Interest rate derivatives—non-hedge	61	—	—	61
Total	\$ 470,769	\$ 11,482	\$ 70,083	\$ 389,204

Derivatives Not Designated as Hedging Instruments

The majority of our derivative instruments have not been designated as hedging instruments. The following table sets forth the pretax gains (losses) on derivatives not accounted for as hedging instruments that have been included in our Consolidated Statements of Operations for the years ended August 31, 2016, 2015, and 2014. We have revised the information that we have historically included in this table below to correct for errors

(DOLLARS IN THOUSANDS)	LOCATION OF GAIN (LOSS)	2016	2015	2014
Commodity and freight derivatives	Cost of goods sold	\$ (49,975)	\$ 143,314	\$ 128,992
Foreign exchange derivatives	Cost of goods sold	(10,904)	8,962	(4,920)
Foreign exchange derivatives	Marketing, general and administrative	(97)	3,589	(1,006)
Interest rate derivatives	Interest expense, net	(6,292)	107	114
Total		\$ (67,268)	\$ 155,972	\$ 123,180

Commodity and Freight Contracts:

When we enter into a commodity purchase or sales commitment, we incur risks related to price changes and performance including delivery, quality, quantity and shipment period. In the event that market prices decrease, we are exposed to risk of loss in the market value of inventory and purchase contracts with a fixed or partially fixed price. Conversely, we are exposed to risk of loss on our fixed or partially fixed price sales contracts in the event that market prices increase.

Our use of hedging reduces the exposure to price volatility by protecting against adverse short-term price

in the previously disclosed amounts. Although such gains and losses have been and continue to be appropriately recorded in the Consolidated Statements of Operations, the previous disclosures did not accurately reflect the derivative gains and losses in each period. These revisions did not materially impact our consolidated financial statements.

movements, but it also limits the benefits of favorable short-term price movements. To reduce the price risk associated with fixed price commitments, we generally enter into commodity derivative contracts, to the extent practical, to achieve a net commodity position within the formal position limits we have established and deemed prudent for each commodity. These contracts are primarily transacted on regulated commodity futures exchanges but may also include over-the-counter derivative instruments when deemed appropriate. For commodities where there is no liquid derivative contract, risk is managed through the use of forward sales contracts, other pricing arrangements

TWELVE: *Derivative Financial Instruments and Hedging Activities, continued*

and, to some extent, futures contracts in highly correlated commodities. These contracts are economic hedges of price risk, but are not designated as hedging instruments for accounting purposes. The contracts are recorded on our Consolidated Balance Sheets at fair values based on quotes listed on regulated commodity exchanges or the market prices of the underlying products listed on the exchanges, except that fertilizer and propane contracts are accounted for as normal purchase and normal sales transactions. Unrealized gains and losses on these contracts are recognized in cost of goods sold in our Consolidated Statements of Operations.

When a futures position is established, initial margin must be deposited with the applicable exchange or broker. The amount of margin required varies by commodity and is set by the applicable exchange at its sole discretion. If the market price relative to a short futures position increases, an additional margin deposit would be required. Similarly, a margin deposit would be required if the market price relative to a long futures position decreases. Conversely, if the market price increases relative to a long futures position or decreases relative to a short futures position, margin deposits may be returned by the applicable exchange or broker.

Our policy is to manage our commodity price risk exposure according to internal policies and in alignment with our tolerance for risk. Our profitability from operations is primarily derived from margins on products sold and grain merchandised, not from hedging transactions. At any one time, inventory and purchase contracts for delivery to us may be substantial. We have risk management policies and procedures that include established net position limits. These limits are defined for each commodity and business unit, and may include both trader and management limits as appropriate. The limits policy is overseen at a high level by our corporate compliance team, with day to day monitoring procedures managed within each individual business unit to ensure any limits overage is explained and exposures reduced or a temporary limit increase is established if needed. The position limits are reviewed, at least annually, with senior leadership and the Board of Directors. We monitor current market conditions and may expand or reduce our net position limits or procedures in response to changes in those conditions. In addition, all purchase and sales contracts are subject to credit approvals and appropriate terms and conditions.

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

As of August 31, 2016 and 2015, we had outstanding commodity futures, options and freight contracts that were used as economic hedges, as well as fixed-price forward contracts related to physical purchases and sales of commodities. The table below presents the notional volumes for all outstanding commodity and freight contracts accounted for as derivative instruments.

(UNITS IN THOUSANDS)	2016		2015	
	LONG	SHORT	LONG	SHORT
Grain and oilseed—bushels	774,279	995,396	711,066	895,326
Energy products—barrels	14,740	6,470	17,238	11,676
Processed grain and oilseed—tons	541	2,060	706	2,741
Crop nutrients—tons	108	135	48	116
Ocean and barge freight—metric tons	4,406	877	5,916	1,962
Rail freight—rail cars	205	79	297	122
Natural gas—MMBtu	3,550	300	—	—

Foreign Exchange Contracts:

We conduct a substantial portion of our business in U.S. dollars, but we are exposed to immaterial risks relating to foreign currency fluctuations primarily due to grain marketing transactions in South America and Europe, and purchases of products from Canada. We use foreign currency derivative instruments to mitigate the impact of exchange rate fluctuations. Although our overall risk relating to foreign currency transactions is not significant, exchange rate fluctuations do, however, impact the ability of foreign buyers to purchase U.S. agricultural products and the competitiveness of U.S. agricultural products compared to the same products offered by alternative sources of world supply. The notional amounts of our foreign exchange derivative contracts were \$802.2 million and \$1.3 billion as of August 31, 2016 and August 31, 2015, respectively.

Derivatives Designated as Cash Flow or Fair Value Hedging Strategies

As of August 31, 2016 and 2015, we have certain derivatives designated as cash flow and fair value hedges.

Interest Rate Contracts:

We have outstanding interest rate swaps with an aggregate notional amount of \$420.0 million designated as fair value hedges of portions of our fixed-rate debt. Our objective in entering into these transactions is to offset changes in the fair value of the debt associated with the risk of variability in the 3-month U.S. dollar LIBOR interest rate, in essence converting the fixed-rate debt to variable-rate debt. Offsetting changes in the fair values of both the swap instruments and the hedged debt are recorded contemporaneously each period and only create an impact to earnings to the extent that the hedge is ineffective. During the years ended August 31, 2016 and 2015, we recorded offsetting fair value adjustments of \$9.8 million and \$8.0 million, respectively, with no ineffectiveness recorded in earnings.

In fiscal 2015, we entered into forward-starting interest rate swaps with an aggregate notional amount of \$300.0 million designated as cash flow hedges of the

expected variability of future interest payments on our anticipated issuance of fixed-rate debt. During the first quarter of fiscal 2016, we determined that certain of the anticipated debt issuances would be delayed; and we consequently recorded an immaterial amount of losses on the ineffective portion of the related swaps in earnings. Additionally, we paid \$6.4 million in cash to settle two of the interest rate swaps upon their scheduled termination dates. During the second quarter of fiscal 2016, we settled an additional two interest rate swaps, paying \$5.3 million in cash upon their scheduled termination. In January 2016, we issued the fixed-rate debt associated with these swaps and will amortize the amounts which were previously deferred to other comprehensive income into earnings over the life of the debt. The amounts to be included in earnings are not expected to be material during any 12-month period. During the third quarter of fiscal 2016, we settled the remaining two interest rate swaps, paying \$5.1 million in cash upon their scheduled termination. We did not issue additional fixed-rate debt as previously planned, and we reclassified all amounts previously recorded to other comprehensive income into earnings.

In fiscal 2013, we entered into derivative contracts designated as cash flow hedging instruments that were terminated in February 2014 as the issuance of the underlying debt was no longer probable. As a result, a \$13.5 million gain was reclassified from accumulated other comprehensive loss into net income. This pre-tax gain is included as a component of interest expense, net in our Consolidated Statement of Operations for the year ended August 31, 2014.

The following table presents the pretax gains (losses) recorded in other comprehensive income relating to cash flow hedges for the years ended August 31, 2016, 2015, and 2014:

(DOLLARS IN THOUSANDS)	2016	2015	2014
Interest rate derivatives	\$ (10,070)	\$ (4,078)	\$ (10,580)

The following table presents the pretax gains (losses) relating to cash flow hedges that were reclassified from accumulated other comprehensive loss into income for the years ended August 31, 2016, 2015, and 2014:

(DOLLARS IN THOUSANDS)	LOCATION OF GAIN (LOSS)	2016	2015	2014
Interest rate derivatives	Interest expense, net	\$ (5,071)	\$ (792)	\$ 12,727

Fair Value Measurements

ASC Topic 820, *Fair Value Measurement* defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

We determine fair values of derivative instruments and certain other assets, based on the fair value hierarchy established in ASC Topic 820, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. ASC Topic 820 describes three levels within its hierarchy that may be used to measure fair value, and our assessment of relevant instruments within those levels is as follows:

Level 1: Values are based on unadjusted quoted prices in active markets for identical assets or liabilities. These assets and liabilities include exchange-traded derivative instruments, Rabbi Trust investments, deferred compensation investments and available-for-sale investments.

Level 2: Values are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. These assets

and liabilities include interest rate, foreign exchange, and commodity swaps; forward commodity and freight purchase and sales contracts with a fixed price component; and other OTC derivatives whose value is determined with inputs that are based on exchange traded prices, adjusted for location specific inputs that are primarily observable in the market or can be derived principally from, or corroborated by, observable market data.

Level 3: Values are generated from unobservable inputs that are supported by little or no market activity and that are a significant component of the fair value of the assets or liabilities. These unobservable inputs would reflect our own estimates of assumptions that market participants would use in pricing related assets or liabilities. Valuation techniques might include the use of pricing models, discounted cash flow models or similar techniques.

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

Recurring fair value measurements at August 31, 2016 and 2015 are as follows:

(DOLLARS IN THOUSANDS)	2016			TOTAL
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	
Assets:				
Commodity and freight derivatives	\$ 62,538	\$ 437,654	\$ —	\$ 500,192
Foreign currency derivatives	—	21,551	—	21,551
Interest rate swap derivatives	—	22,078	—	22,078
Deferred compensation assets	50,099	—	—	50,099
Other assets	12,678	—	—	12,678
Total	\$ 125,315	\$ 481,283	\$ —	\$ 606,598
Liabilities:				
Commodity and freight derivatives	\$ 22,331	\$ 468,971	\$ —	\$ 491,302
Foreign currency derivatives	—	22,289	—	22,289
Interest rate swap derivatives	—	8	—	8
Accrued liability for contingent crack spread payments related to purchase of noncontrolling interests	—	—	15,051	15,051
Total	\$ 22,331	\$ 491,268	\$ 15,051	\$ 528,650

(DOLLARS IN THOUSANDS)	2015			TOTAL
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	
Assets:				
Commodity and freight derivatives	\$ 46,976	\$ 429,094	\$ —	\$ 476,070
Foreign currency derivatives	—	23,155	—	23,155
Interest rate swap derivatives	—	14,216	—	14,216
Deferred compensation assets	72,571	—	—	72,571
Other assets	10,905	—	—	10,905
Total	\$ 130,452	\$ 466,465	\$ —	\$ 596,917
Liabilities:				
Commodity and freight derivatives	\$ 58,873	\$ 368,179	\$ —	\$ 427,052
Foreign currency derivatives	—	37,598	—	37,598
Interest rate swap derivatives	—	6,119	—	6,119
Accrued liability for contingent crack spread payments related to purchase of noncontrolling interests	—	—	75,982	75,982
Total	\$ 58,873	\$ 411,896	\$ 75,982	\$ 546,751

Commodity, freight and foreign currency derivatives—Exchange-traded futures and options contracts are valued based on unadjusted quoted prices in active markets and are classified within Level 1. Our forward commodity purchase and sales contracts with fixed-price components, ocean freight contracts and other

OTC derivatives are determined using inputs that are generally based on exchange traded prices and/or recent market bids and offers, adjusted for location specific inputs, and are classified within Level 2. The location specific inputs are generally broker or dealer quotations, or market transactions in either the listed or OTC markets. Changes in the fair values of these contracts are recognized in our Consolidated Statements of Operations as a component of cost of goods sold.

THIRTEEN: Fair Value Measurements, continued

Interest rate swap derivatives—Fair values of our interest rate swap derivatives are determined utilizing valuation models that are widely accepted in the market to value these OTC derivative contracts. The specific terms of the contracts, as well as market observable inputs, such as interest rates and credit risk assumptions, are factored into the models. As all significant inputs are market observable, all interest rate swaps are classified within Level 2. Changes in the fair values of contracts not designated as hedging instruments for accounting purposes are recognized in our Consolidated Statements of Operations as a component of interest expense, net. See Note 12, *Derivative Financial Instruments and Hedging Activities* for additional information about interest rates swaps designated as fair value and cash flow hedges.

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

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

QUANTITATIVE INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENTS

ITEM (DOLLARS IN THOUSANDS)	FAIR VALUE AUGUST 31, 2016	VALUATION TECHNIQUE	UNOBSERVABLE INPUT	INPUT USED
Accrued liability for contingent crack spread payments related to purchase of noncontrolling interests	\$15,051	Adjusted Black-Scholes option pricing model	Forward crack spread margin on August 31, 2016 (a)	\$16.43
			Contractual target crack spread margin (b)	\$17.50
			Expected volatility (c)	152.65%
			Risk-free interest rate (d)	0.94%
			Expected life—years (e)	1.00

(a) Represents forward crack spread margin quotes and management estimates based on the future settlement date.

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

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

(d) Represents yield curves for U.S. Treasury securities.

(e) Represents the number of years remaining related to the final contingent payment.

Valuation processes for Level 3 measurements—Management is responsible for determining the fair value of our Level 3 financial instruments. Option pricing methods are utilized, as indicated above. Inputs used in the option pricing models are based on quotes obtained from third party vendors. Each reporting period, management reviews the unobservable inputs provided by third-party vendors for reasonableness utilizing relevant information available to us. Management also takes into consideration current and expected market trends and compares the liability's fair value to hypothetical payments using known

historical market data to assess reasonableness of the resulting fair value.

Sensitivity analysis of Level 3 measurements—The significant unobservable inputs that are susceptible to periodic fluctuations used in the fair value measurement of the accrued liability for contingent crack spread payments related to the purchase of noncontrolling interests are the adjusted forward crack spread margin and the expected volatility. Significant increases (decreases) in either of these inputs in isolation would result in a significantly higher (lower) fair value measurement. Although changes in the expected volatility are driven

by fluctuations in the underlying crack spread margin, changes in expected volatility are not necessarily accompanied by a directionally similar change in the forward crack spread margin. Directional changes in the

expected volatility can be affected by a multitude of factors including the magnitude of daily fluctuations in the underlying market data, market trends, timing of fluctuations, and other factors.

The following table represents a reconciliation of liabilities measured at fair value using significant unobservable inputs (Level 3) for the years ended August 31, 2016 and 2015:

(DOLLARS IN THOUSANDS)	LEVEL 3 LIABILITIES	
	ACCRUED LIABILITY FOR CONTINGENT CRACK SPREAD PAYMENTS RELATED TO PURCHASE OF NONCONTROLLING INTERESTS	
	2016	2015
Balance—beginning of year	\$ 75,982	\$ 114,917
Amounts currently payable	—	(2,625)
Total (gains) losses included in cost of goods sold	(60,931)	(36,310)
Balance—end of year	\$ 15,051	\$ 75,982

There were no material transfers between Level 1, Level 2 and Level 3 assets and liabilities during the years ended August 31, 2016 and 2015.

FOURTEEN

Commitments and Contingencies

Environmental

We are required to comply with various environmental laws and regulations incidental to our normal business operations. In order to meet our compliance requirements, we establish reserves for the probable future costs of remediation of identified issues, which are included in cost of goods sold and marketing, general and administrative in our Consolidated Statements of Operations. The resolution of any such matters may affect consolidated net income for any fiscal period; however, management believes any resulting liabilities, individually or in the aggregate, will not have a material effect on our consolidated financial position, results of operations or cash flows during any fiscal year.

Other Litigation and Claims

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

Guarantees

We are a guarantor for lines of credit and performance obligations of related, non-consolidated companies. Our bank covenants allow maximum guarantees of \$1.0 billion, of which \$133.8 million were outstanding on August 31, 2016. We have collateral for a portion of these contingent obligations. We have not recorded a liability related to the contingent obligations as we do not expect to pay out any cash related to them, and the fair values are considered immaterial. The underlying loans to the counterparties for which we provide guarantees are current as of August 31, 2016.

Credit Commitments

CHS Capital has commitments to extend credit to customers as long as there is no violation of any condition established in the contracts. As of August 31, 2016, CHS Capital's customers have additional available credit of \$1.0 billion.

Lease Commitments

We lease certain property, plant and equipment used in our operations under both capital and operating lease agreements. Our operating leases, which are primarily for rail cars, equipment, vehicles and office space have

FOURTEEN: *Commitments and Contingencies, continued*

remaining terms of one to 15 years. Total rental expense for operating leases was \$74.7 million, \$56.7 million and \$47.4 million for the years ended August 31, 2016, 2015 and 2014, respectively. We lease certain rail cars, equipment, vehicles and other assets under capital lease arrangements. These assets are included in property, plant and equipment, net on our Consolidated Balance Sheets while the corresponding capital lease obligations are included in long-term debt. See Note 5, *Property, Plant and Equipment* and Note 7, *Notes Payable and Long-Term Debt* for more information about capital leases.

Minimum future lease payments required under noncancelable operating leases as of August 31, 2016 are as follows:

(DOLLARS IN THOUSANDS)	
2017	\$ 65,714
2018	52,834
2019	41,406
2020	32,527
2021	30,752
Thereafter	81,574
Total minimum future lease payments	\$ 304,807

Unconditional Purchase Obligations

Unconditional purchase obligations are commitments to transfer funds in the future for fixed or minimum amounts or quantities of goods or services at fixed or minimum prices. Our long-term unconditional purchase obligations primarily relate to pipeline and grain handling take-or-pay and through-put agreements and are not recorded on our Consolidated Balance Sheets. As of August 31, 2016, minimum future payments required under long-term commitments that are noncancelable, and that third parties have used to secure financing for the facilities that will provide the contracted goods, are as follows:

(DOLLARS IN THOUSANDS)	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Long-term unconditional purchase obligations	\$767,943	\$ 60,655	\$ 108,120	\$ 113,553	\$ 485,615

The discounted, aggregate amount of the minimum required payments under long-term unconditional purchase obligations, based on current exchange rates at August 31, 2016, is \$627.2 million. Total payments under these arrangements were \$88.0 million, \$66.8 million and \$65.5 million for the years ended August 31, 2016, 2015 and 2014, respectively.

FIFTEEN

Supplemental Cash Flow and Other Information

Additional information concerning supplemental disclosures of cash flow activities for the years ended August 31, 2016, 2015 and 2014 is included in the table below. We have previously revised amounts for the year ended August 31, 2014 in this table related to interest, capital expenditures and capital leases. See Note 18, *Correction of Immaterial Errors* for more information on the nature and amounts of these revisions.

(DOLLARS IN THOUSANDS)	2016	2015	2014
Net cash paid during the period for:			
Interest	\$ 147,089	\$ 130,571	\$ 166,524
Income taxes	5,184	54,229	23,363
Other significant noncash investing and financing transactions:			
Capital expenditures and major repairs incurred but not yet paid (1)	44,307	60,226	64,825
Capital lease obligations incurred	23,921	9,741	62,425
Capital equity certificates redeemed with preferred stock	76,756	—	200,000
Capital equity certificates issued in exchange for Ag acquisitions	19,089	15,618	14,278
Accrual of dividends and equities payable	198,031	384,427	409,961
Noncash consideration for Ag acquisition	14,586	—	—
Payable for Ag acquisitions	4,211	—	—
Assets contributed to Ardent Mills joint venture	—	—	205,040

- (1) Represents acquisition of property, plant and equipment and capitalized major maintenance costs for which cash payments have not yet been made as of the end of each fiscal period presented. Acquiring or constructing property, plant and equipment by incurring a liability does not result in a cash outflow for us until the liability is paid. In the period the liability is incurred, the change in operating accounts payable on our Consolidated Statements of Cash Flows is adjusted by such amount. In the period the liability is paid, the amount is reflected as a cash outflow from investing activities.

SIXTEEN

Related Party Transactions

Related party transactions with equity investees for the years ended August 31, 2016, 2015 and 2014, respectively, and balances as of August 31, 2016 and 2015, respectively, are as follows:

(DOLLARS IN THOUSANDS)	2016	2015	2014
Sales	\$ 2,728,793	\$ 2,310,875	\$ 3,247,197
Purchases	1,707,990	1,762,663	1,648,030

(DOLLARS IN THOUSANDS)	2016	2015
Due from related parties	\$ 25,386	\$ 73,000
Due to related parties	40,543	6,656

The related party transactions were primarily with CF Nitrogen, TEMCO, Horizon Milling, Ardent Mills and Ventura Foods.

Acquisitions

During the year ended August 31, 2016, we acquired various businesses primarily in our Ag segment for \$50.3 million in consideration. These acquisitions were not material, individually or in aggregate, to our consolidated financial statements.

During the year ended August 31, 2015, we acquired various businesses in our Ag segment for \$321.0 million in consideration. These acquisitions were not material, individually or in aggregate, to our consolidated financial statements. Included among these transactions was the June 2015 acquisition of Patriot Holdings, LLC, which operates an ethanol plant that has expanded our grain origination opportunities and increased our renewable fuels capacity. Additionally, we acquired Northstar Agri Industries, a canola processing and refining business in July 2015. The acquisition expanded our oilseed processing platform to include canola in addition to soybeans, expanded our oil product offerings to global food companies, and linked growers selling canola seed to CHS to an integrated supply chain. The allocation of consideration for net assets acquired in our aggregate acquisitions during the year ended August 31, 2015 is summarized as follows:

(DOLLARS IN THOUSANDS)

Current assets	\$ 60,577
Property, plant and equipment	312,288
Goodwill	423
Other assets	16,118
Current liabilities	(60,127)
Other liabilities	(8,261)
Total net assets acquired	\$ 321,018

During the year ended August 31, 2014, we acquired various businesses primarily in our Ag segment for \$281.5 million in consideration. These acquisitions were not material, individually or in aggregate, to our consolidated financial statements. Included among these transactions was the acquisition of Illinois River Energy LLC, which operates an ethanol plant that expanded our grain origination opportunities and increased renewable fuels capacity. Additionally, we acquired the fertilizer business and assets of Terral RiverService, a transportation service company specializing in the bulk storage and handling of dry and liquid materials along the Mississippi River system, the Gulf Intracoastal Waterway and inland waterways of Louisiana and southern Arkansas. See Note 6, *Other Assets* for information

about the amounts of goodwill and intangible assets recorded as a result of these transactions.

CHS McPherson Refinery Inc. (formerly National Cooperative Refinery Association or "NCRA")

In November 2011, our Board of Directors approved a stock transfer agreement between us and GROWMARK, Inc. ("Growmark"), and a stock transfer agreement between us and MFA Oil Company ("MFA"). Pursuant to these agreements, we began to acquire from Growmark and MFA shares of Class A common stock and Class B common stock of NCRA representing approximately 25.6% of NCRA's outstanding capital stock. Prior to the first closing, we owned the remaining approximately 74.4% of NCRA's outstanding capital stock as of August 31, 2012 and accordingly, upon completion of the acquisitions described by these agreements, NCRA would be a wholly-owned subsidiary. As of August 31, 2015, our ownership was 88.9% and with the final closing in September 2015, our ownership increased to 100%. The entity is now known as CHS McPherson Refinery Inc. ("CHS McPherson").

Pursuant to the agreement with Growmark, we acquired stock representing approximately 18.6% of NCRA's outstanding capital stock in four separate closings held on September 1, 2012, September 1, 2013, September 1, 2014 and September 1, 2015, for an aggregate base purchase price of \$255.5 million (approximately \$48.0 million of which was paid through each of the first three closings, and \$111.4 million of which was paid at the final closing in September 2015). In addition, Growmark is entitled to receive up to two contingent purchase price payments following each individual closing, calculated as set forth in the agreement with Growmark, if the average crack spread margin referred to therein over the year ending on August 31 of the calendar year in which the contingent payment date falls exceeds a specified target.

Pursuant to the agreement with MFA, we acquired stock representing approximately 7.0% of NCRA's outstanding capital stock in four separate closings held on September 1, 2012, September 1, 2013, September 1, 2014 and September 1, 2015, for an aggregate base purchase price of \$95.5 million (approximately \$18.0 million of which was paid through each of the first three closings, and \$41.6 million of which was paid at the final closing in September 2015). In addition, MFA is entitled to receive up to two contingent purchase price payments following each individual closing, calculated as set forth in

the agreement with MFA, if the average crack spread margin referred to therein over the year ending on August 31 of the calendar year in which the contingent payment date falls exceeds a specified target.

As of August 31, 2016 and 2015, the amounts recognized in other liabilities on our Consolidated Balance Sheets for these contingent consideration arrangements are \$15.1 million and \$76.0 million, respectively. Corresponding gains of \$60.9 million and \$36.3 million are included in cost of goods sold in our Consolidated Statements of Operations for the years ended August 31, 2016 and 2015, respectively. The first contingent consideration payment in the amount of \$16.5 million was made in October 2013; and based on the

average crack spread margins during fiscal 2014, no payment was made in October 2014. As of August 31, 2015, \$2.6 million was recorded as a current liability and was subsequently paid in October 2015. Based on the average crack spread margin during fiscal 2016, no payment was made in October 2016.

In accordance with ASC Topic 480, patronage earned by Growmark and MFA has been included as interest expense in our Consolidated Statements of Operations. No interest was recognized during the year ended August 31, 2016. During the years ended August 31, 2015 and 2014, \$31.0 million and \$65.5 million, respectively, was recognized as interest expense for the patronage earned by Growmark and MFA.

EIGHTEEN

Correction of Immaterial Errors

Lease Accounting:

We lease rail cars, equipment, vehicles and other assets under noncancelable lease agreements for use in our agricultural and transportation operations in both our Energy and Ag segments. During the fourth quarter of fiscal 2015, we determined that we had historically applied the accounting principles of ASC Topic 840, *Leases*, incorrectly by accounting for our lease arrangements as operating leases. We subsequently determined that certain of our leases met, at lease inception, one or more of the ASC 840-10-25-1 criteria that require a lease to be classified and accounted for as a capital lease. Prior period amounts in the financial statements, notes thereto and related disclosures were revised at that time.

Statement of Cash Flows Presentation:

During the fourth quarter of fiscal 2015, we determined that our historical presentation of cash flows related to the acquisition of property, plant and equipment and expenditures for major repairs was incorrect. Amounts presented as cash outflows in prior periods included

acquisitions of assets for which cash had not yet been paid, resulting in misstatements of both investing and operating cash flows. Prior period amounts in the financial statements, notes thereto and related disclosures were corrected at that time.

Materiality Assessment:

We assessed the materiality of the misstatements described above on prior period financial statements in accordance with SEC Staff Accounting Bulletin (“SAB”) No. 99, *Materiality*, codified in ASC 250 (“ASC 250”), *Presentation of Financial Statements*, and concluded these misstatements were not material to any prior annual or interim periods. Accordingly, in accordance with ASC 250 (SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*), our consolidated financial statements as of August 31, 2014 and for the year ended August 31, 2014, which are presented herein, were revised.

EIGHTEEN: *Correction of Immaterial Errors, continued*

The following are selected line items from our consolidated financial statements illustrating the effects of these revisions:

CONSOLIDATED STATEMENT OF OPERATIONS

(DOLLARS IN THOUSANDS)	FOR THE YEAR ENDED AUGUST 31, 2014		
	AS PREVIOUSLY REPORTED	REVISION	AS REVISED
Cost of goods sold	\$ 41,016,798	\$ (5,311)	\$ 41,011,487
Gross profit	1,647,235	5,311	1,652,546
Operating earnings	1,044,637	5,311	1,049,948
Interest expense, net	134,942	5,311	140,253
Income before income taxes	1,131,303	—	1,131,303

CONSOLIDATED STATEMENT OF CASH FLOWS

(DOLLARS IN THOUSANDS)	FOR THE YEAR ENDED AUGUST 31, 2014		
	AS PREVIOUSLY REPORTED	REVISION	AS REVISED
Cash flows from operating activities:			
Depreciation and amortization	\$ 267,167	\$ 39,080	\$ 306,247
Changes in operating assets and liabilities, excluding the effects of acquisitions:			
Accounts payable and accrued expenses	(164,616)	(25,187)	(189,803)
Net cash provided by (used in) operating activities	1,427,351	13,893	1,441,244
Cash flows from investing activities:			
Acquisition of property, plant and equipment	(943,888)	24,812	(919,076)
Expenditures for major repairs	(3,305)	375	(2,930)
Net cash provided by (used in) investing activities	(1,341,582)	25,187	(1,316,395)
Cash flows from financing activities:			
Principal payments on capital lease obligations	—	(39,871)	(39,871)
Other financing activities, net	(447)	791	344
Net cash provided by (used in) financing activities	240,530	(39,080)	201,450

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Members and Patrons of CHS Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive income, of changes in equities, and of cash flows present fairly, in all material respects, the financial position of CHS Inc. and its subsidiaries at August 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Minneapolis, Minnesota
November 3, 2016

BOARD OF DIRECTORS



From left, front, Eischens, Schurr, Blew, Bielenberg, Erickson, Fritel, Anthony; back, Johnsrud, Carlson, Knecht, Meyer, Bass, Kruger, Holm, Malesich, Riegel, Kayser

David Bielenberg

Chairman
Silverton, Oregon

Steve Fritel

First Vice Chairman
Barton, North Dakota

Dan Schurr

Secretary-Treasurer
LeClaire, Iowa

Curt Eischens

Second Vice Chairman
Minneota, Minnesota

Don Anthony

Assistant Secretary-Treasurer
Lexington, Nebraska

Robert Bass

Reedsburg, Wisconsin

C.J. Blew

Castleton, Kansas

Dennis Carlson

Mandan, North Dakota

Jon Erickson

Minot, North Dakota

Alan Holm

Sleepy Eye, Minnesota

David Johnsrud

Starbuck, Minnesota

David Kayser

Alexandria, South Dakota

Randy Knecht

Houghton, South Dakota

Greg Kruger

Eleva, Wisconsin

Edward Malesich

Dillon, Montana

Perry Meyer

New Ulm, Minnesota

Steve Riegel

Ford, Kansas

CHS directors represent a broad range of operationally complex and geographically diverse agricultural businesses.

As a key component of the board's development commitment, CHS directors completed the National Association of Corporate Directors (NACD) certification program, with many earning Board Leadership Fellow status.

Detailed biographical information on the CHS Board of Directors is available at chsinc.com.

EXECUTIVE TEAM



From left, Skidmore, Zell, Zappa, Johnson, Casale, Debertin, Cunningham

Carl Casale

President and
Chief Executive Officer

Shirley Cunningham

Executive Vice President and
Chief Operating Officer,
Ag Business and Enterprise Strategy

Jay Debertin

Executive Vice President and
Chief Operating Officer,
Energy and Foods

Lynden Johnson

Executive Vice President and
Chief Operating Officer,
Country Operations

Detailed biographical information on the CHS executive team is available at chsinc.com.

Timothy Skidmore

Executive Vice President and
Chief Financial Officer

James Zappa

Executive Vice President and
General Counsel

Lisa Zell

Executive Vice President,
Business Solutions

Acknowledgements

For CHS, helping our member cooperative- and producer-owners grow is our essential promise today and every day as we serve today's farmers and ranchers and cultivate the next generation of agriculture leaders.

To create the annual report, CHS worked with member cooperatives, producers and their families. They shared their time, their stories and their homes with us. While you see in these pages our collective accomplishments and what's possible for our future together, we're reminded of who we are: families. CHS appreciates the time and contributions from the families who helped tell our cooperative story. Our work is really about you: our people.

Colorado: Kent and Danell Kalcevic, Bennett, Colo.; Gary and Jerod Henrickson, Bella Holstein, Platteville, Colo.; Jason Brancel, president and CEO; Mark Reinert, marketing communications director; Keith Amen, board chair; and James Johnston, agronomist, Agfinity, Eaton, Colo.; Jim Magnuson, Eaton, Colo.

Illinois: Jon and Kim Chamberlain, Geneseo, Ill.; Steve Nightingale, Osco, Ill.

Iowa: Brian Dreessen, general manager, Cooperative Energy, Sibley, Iowa; Brian Bultmann, Sibley, Iowa; River Valley Cooperative, Davenport, Iowa

Minnesota: Dan Larson, Cyrus, Minn.; Jerome Hanson, Hoffman, Minn.; Erica Boyum and Jacob Hagen, agronomists, CHS Prairie Lakes, Starbuck, Minn.; the Penning family, Wilmont, Minn.

Montana: Joe Sandru, Twin Bridges, Mont.





Back cover: Top, the CHS Warren, Minn., team applies N-Edge® fertilizer to a northwest Minnesota field. Middle, a customer near Elrosa, Minn., benefits from the tank fill-up by a CHS Automated Fuel Delivery driver. Bottom, as Joe Sandru surveys his family's beef herd near Twin Bridges, Mont., he knows he can count on CHS and Payback® feed.

Above: Top left, Gary Henrickson, Platteville, Colo., counts on energy products from Agfinity in nearby Eaton to power his dairy business. Top right, Brooks Dagen, plant engineer, manages capital projects at the CHS Processing and Food Ingredients facility at Hallock, Minn. Middle, wheat harvest commences near the CHS refinery at McPherson, Kan. Bottom left, the Penning family is raising next-generation leaders on its Wilmont, Minn., farm. Bottom right, Jim Magnuson, left, is an alum of the CHS New Leader Forum and an Eaton, Colo., grower who reviews crop production plans with Agfinity Agronomist James Johnston.



Farmer-owned with
global connections

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chsinc.com
NASDAQ: CHSCP, CHSCO,
CHSCN, CHSCM, CHSCL

