CENEX HARVEST STATES COOPERATIVES
Form S-2
December 17, 2002

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON DECEMBER __, 2002

Registration No. 333-_________

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CENEX HARVEST STATES COOPERATIVES
(Exact name of Registrant as specified in its charter)

MINNESOTA	41-0251095
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

5500 CENEX DRIVE
INVER GROVE HEIGHTS, MINNESOTA 55077
(651) 451-5151
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

David Kastelic
Senior Vice President and General Counsel
Cenex Harvest States Cooperatives
5500 Cenex Drive
Inver Grove Heights, Minnesota 55077
(651) 451-5151
Fax (651) 451-4554
(Name, address, including zip code, and telephone number, including area code, of agent for service

COPIES TO:

William B. Payne Dorsey & Whitney LLP 50 South Sixth Street Minneapolis, Minnesota 55402 (612) 340-2600 Fax (612) 340-8738	Christopher J. Voss John D. Kauffman Stoel Rives LLP 600 University Street, Suite 3600 Seattle, Washington 98101 (206) 624-0900 Fax (206) 386-7500

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
AS SOON AS PRACTICABLE AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE.

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

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered(1)	Proposed maximum offering price per share	Proposed maximum aggregate offering pric
8% Cumulative Redeemable Preferred Stock	2,875,000 shares	$25.00	$71,875,000

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES, AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED DECEMBER 17, 2002

[LOGO]

2,500,000 SHARES

8% CUMULATIVE REDEEMABLE PREFERRED STOCK

CENEX HARVEST STATES COOPERATIVES

$25.00 PER SHARE

We are offering 2,500,000 shares of our 8% Cumulative Redeemable Preferred Stock. Holders of the preferred stock will be entitled to receive cash dividends at the rate of $2.00 per share per year. Dividends will be payable quarterly in arrears when, as and if declared on March 31, June 30, September 30 and December 31 of each year beginning March 31, 2003. Dividends payable on the preferred stock are cumulative. The preferred stock is subject to redemption and has the preferences described in this prospectus. The preferred stock is not convertible into any of our other securities and is non-voting except in certain limited circumstances.

We have applied to have our preferred stock listed on The Nasdaq National Market under the symbol "CHSCP."

Investing in our preferred stock involves certain risks. See "Risk Factors" beginning on page 9.

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

	PER SHARE	TOTAL
Public offering price(1)....................	$25.0000	$62,500,000
Underwriting discount.......................	.9375	$ 2,343,750
Proceeds to CHS (before expenses)...........	$24.0625	$60,156,250

(1) Plus accrued dividends from and including January 1, 2003.

The underwriters are severally underwriting the shares of preferred stock. We have granted to the underwriters a 30-day option to purchase up to 375,000 shares of the preferred stock on the same terms and conditions as set forth above to cover over-allotments, if any.

We expect to deliver the preferred stock on or about ___________, 2003.

CO-LEAD MANAGERS

D.A. DAVIDSON & CO.   U.S. BANCORP PIPER JAFFRAY

FAHNESTOCK & CO. INC.

The date of this prospectus is ____________, 2003

TABLE OF CONTENTS

i

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

You should rely only on the information contained or incorporated by reference in this prospectus. Neither we nor the underwriters have authorized any other person to provide you with different or additional information. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information provided by this prospectus is accurate as of any date other than the date on the front of this prospectus. Updated information can be obtained as described under "Where You Can Find More Information."

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the information incorporated by reference in it contain statements that constitute forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "intend," "forecast," "anticipate," "believe," "estimate," "predict," "potential," "continue" or the negative of these terms or other comparable terminology. These forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements. These factors include those listed under "Risk Factors" and elsewhere in this prospectus.

We do not guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements, which speak only as of the date on which they were made.

ii

PROSPECTUS SUMMARY

THIS SUMMARY HIGHLIGHTS INFORMATION WE PRESENT IN GREATER DETAIL ELSEWHERE IN THIS PROSPECTUS AND IN THE INFORMATION INCORPORATED BY REFERENCE IN IT. THIS SUMMARY MAY NOT CONTAIN ALL OF THE INFORMATION THAT IS IMPORTANT TO YOU AND YOU SHOULD CAREFULLY CONSIDER ALL OF THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS. THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS THAT ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE OUR ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE FORWARD-LOOKING

STATEMENTS. THESE FACTORS INCLUDE THOSE LISTED UNDER "RISK FACTORS" AND ELSEWHERE IN THIS PROSPECTUS.

CENEX HARVEST STATES COOPERATIVES

We are one of the nation's leading integrated agricultural companies. As a cooperative, we are owned by farmers and ranchers and their local cooperatives located from the Great Lakes to the Pacific Northwest and from the Canadian border to Texas. We buy commodities from and provide products and services to our members and other customers. We provide a wide variety of products and services, from initial agricultural inputs such as fuels, farm supplies and crop nutrients, to agricultural outputs that include grains and oilseeds, grain and oilseed processing and food products. For the fiscal year ended August 31, 2002, our total revenues were $7.8 billion.

Our operations are organized into five business segments: Agronomy, Energy, Country Operations, Grain Marketing and Processed Grains and Foods. Together these business segments create vertical integration to link producers with consumers. The first two segments, Agronomy and Energy, produce and provide for the wholesale distribution of inputs that are essential for crop production. The third segment, Country Operations, serves as our company-owned retailer of a portion of these crop inputs and also serves as the first handler of a significant portion of the crops marketed and processed by us. The fourth segment, Grain Marketing, purchases and resells grains and oilseeds originated by our Country Operations segment, by member cooperatives and by third parties. The fifth business segment, Processed Grains and Foods, converts grains and oilseeds into value-added products.

Only producers of agricultural products and associations of producers of agricultural products may be members of CHS Cooperatives. Our earnings are allocated to members based on the volume of business they do with us. Members receive earnings in the form of patronage refunds in cash and patrons' equities, which may be redeemed over time.

A portion of our operations are conducted through equity investments and joint ventures whose operating results are not consolidated with our results. For those investments and ventures for which we recognize income using the equity method of accounting, a proportionate share of the income from those entities is included as a component in our net income.

The origins of CHS Cooperatives date back to the early 1930s with the founding of the predecessor companies of Cenex, Inc. and Harvest States Cooperatives. Cenex Harvest States Cooperatives, now headquartered in Inver Grove Heights, Minnesota, emerged as the result of the merger of the two entities in 1998. Our address is 5500 Cenex Drive, Inver Grove Heights, Minnesota 55077. Our telephone number is (651) 451-5151.

AGRONOMY

Through our Agronomy business segment, we are engaged in the manufacture of crop nutrients and the wholesale distribution of crop nutrients and crop protection products. We conduct our agronomy operations primarily through two investments -- a 20% cooperative ownership interest in CF Industries, Inc. (CF Industries) and a 25% ownership interest in Agriliance, LLC (Agriliance). CF Industries manufactures crop nutrient products, particularly nitrogen and phosphate fertilizers, and is one of the largest suppliers to Agriliance. Agriliance is one of North America's largest wholesale distributors of crop nutrients, crop protection products and other agronomy products. Our minority ownership interests in CF Industries and Agriliance are treated as investments and, therefore, those entities' revenues and expenses are not reflected in our operating results.

ENERGY

We are the nation's largest cooperative energy company, with operations that include petroleum refining and pipelines; the supply, marketing and distribution of refined fuels (gasoline, diesel, and other energy products);

the blending, sale and distribution of lubricants; and the wholesale and retail supply of propane. Our Energy business segment processes crude oil into refined petroleum products at refineries in Laurel, Montana (wholly-owned) and McPherson, Kansas (National Cooperative Refinery Association, a cooperative in which we have an approximate 74.5% ownership interest) and sells those products under the Cenex brand to our member cooperatives and others through a network of approximately 1,400 independent retailers, including approximately 800 that operate Cenex/Ampride convenience stores.

COUNTRY OPERATIONS

Our Country Operations business segment purchases wheat and other grains from our producer members and provides our members and producers with access to a full range of products and services including farm supplies, programs for crop and livestock production, hedging and insurance services, and agricultural operations financing. Country Operations operates at approximately 300 locations dispersed throughout Minnesota, North Dakota, South Dakota, Nebraska, Montana, Idaho, Washington and Oregon. Most of these locations purchase grain from farmers and sell agronomy products, energy products and feed to those same producers and others, although not all locations provide every product and service.

GRAIN MARKETING

We are the nation's largest cooperative marketer of grain and oilseed, handling about 1.1 billion bushels annually. During fiscal year 2002, we purchased approximately 76% of our total grain volumes from individual and member cooperatives and the Country Operations business segment, with the balance purchased from third parties. We arrange for the transportation of the grains either directly to customers or to our owned or leased grain terminals and elevators pending delivery to domestic and foreign purchasers. We conduct most of our Grain Marketing operations directly, although we do conduct some of our business through three joint ventures in which we have a 50% ownership.

PROCESSED GRAINS AND FOODS

Our Processed Grains and Foods business segment converts raw agricultural commodities into ingredients for finished food products or into finished consumer food products. We have focused on areas that utilize the products supplied by our member producers. These areas are oilseed processing and refining, wheat milling and foods, including oilseed-based products (such as margarine and salad dressing) and Mexican foods.

THE OFFERING

ISSUER	Cenex Harvest States Cooperatives, a Minnesota cooperative
SECURITIES OFFERED	2,500,000 Shares of 8% Cumulative Redeemable Preferred Stock
OFFERING PRICE	$25.00 per share
DIVIDENDS	You will be entitled to receive cash dividends at the rate of $2.00 per share per year when, as and if declared by our board of directors. Dividends are cumulative and will be payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year beginning March 31, 2003.
LIQUIDATION RIGHTS	In the event of our liquidation, you will be entitled to receive $25.00 per share plus all dividends accumulated and unpaid on the shares to and including the date of liquidation, subject, however, to the rights of any of our securities that rank senior or on a parity with the preferred stock.
RANK	With respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution or winding up, the preferred stock will rank prior to the following: o any patronage refund; o any other class or series of our capital stock designated by our board of directors as junior to the preferred stock; and o our common stock, if any. Shares of any class or series of our capital stock that are not junior to the preferred stock, including our existing 8% Preferred Stock, will rank on a parity with the preferred stock.
REDEMPTION AT OUR OPTION	We may not redeem the preferred stock prior to February 1, 2008. On or after that date we may, at our option, redeem the preferred stock, in whole or from time to time in part, for cash at a price of $25.00 per share plus all dividends accumulated and unpaid on that share to and including the date of redemption.
REDEMPTION AT THE HOLDER'S OPTION	In the event of a change in control

	initiated by our board of directors, you will have the right, for a period of 90 days from the date of the change in control, to require us to repurchase your shares of preferred stock at a price of $25.00 per share plus all dividends accumulated and unpaid on that share to and including the date of redemption. "Change in control" is defined in "Description of the Preferred Stock - Redemption at the Holder's Option."
NO EXCHANGE OR CONVERSION RIGHTS, NO SINKING FUND	The preferred stock is not exchangeable for or convertible into shares of any other shares of our capital stock or any other securities or property. The preferred stock is not subject to the operation of any purchase, retirement or sinking fund.

VOTING RIGHTS	You will not have voting rights except as required by applicable law; provided that the affirmative vote of two-thirds of the outstanding preferred stock will be required to approve: o any amendment to our articles of incorporation or the resolutions establishing the terms of the preferred stock if the amendment adversely affects the rights or preferences of the preferred stock; and o the creation of any class or series of equity securities having rights senior to the preferred stock as to the payment of dividends or distribution of assets upon the liquidation, dissolution or winding up of CHS.
Nasdaq LISTING	We have applied to have the preferred stock listed on The Nasdaq National Market under the symbol "CHSCP."
USE OF PROCEEDS	We intend to use the net proceeds from this offering to repay short-term indebtedness.
RISK FACTORS	See "Risk Factors" and the other information in this prospectus for a discussion of factors that you should consider carefully before deciding to purchase the preferred stock.

SUMMARY CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data below has been derived from our consolidated financial statements for the periods indicated below. The selected audited consolidated financial data for the three years ended August 31, 2002, should be read in conjunction with our consolidated financial statements and notes to them included elsewhere in this prospectus.

	YEARS ENDED AUGUST 31,			
	2002	2001	2000	1999
	(DOLLARS IN THOUSANDS, EXCEPT FOR RATIO			
Income Statement Data:				
Revenues:				
Net sales	$ 7,731,867	$ 7,753,012	$ 8,497,850	$ 6,381,334
Patronage dividends	3,885	5,977	5,494	5,876
Other revenues	109,459	116,254	97,471	81,180
	7,845,211	7,875,243	8,600,815	6,468,390
Cost of goods sold	7,513,369	7,470,203	8,300,494	6,193,287
Marketing, general and administrative	187,292	184,046	155,266	152,031
Operating earnings	144,550	220,994	145,055	123,072
Interest	42,455	61,436	57,566	42,438
Equity (income) loss from investments	(58,133)	(28,494)	(28,325)	(22,363)
Minority interests	15,390	35,098	24,546	10,017
Income before income taxes	144,838	152,954	91,268	92,980
Income taxes	18,700	(25,600)	3,880	6,980
Net income	$ 126,138	$ 178,554	$ 87,388	$ 86,000
Balance Sheet Data (at end of period):				
Working capital	$ 249,115	$ 305,280	$ 214,223	$ 219,045
Net property, plant and equipment	1,057,421	1,023,872	1,034,768	968,333
Total assets	3,481,727	3,057,319	3,172,680	2,787,664
Long-term debt, including current maturities	572,124	559,997	510,500	482,666
Total equities	1,289,638	1,261,153	1,164,426	1,117,636
Ratio of earnings to fixed charges and preferred dividends(2)	3.4x	3.4x	2.6x	2.5x

(1) Reflects our change in fiscal year end from May 31 to August 31.

(2) For purposes of computing the ratio of earnings to fixed charges and preferred dividends, earnings consist of earnings before income taxes on

consolidated operations, distributed income from equity investees and fixed charges. Fixed charges consist of interest expense and one-third of rental expense, considered representative of that portion of rental expense estimated to be attributable to interest.

RISK FACTORS

BEFORE INVESTING IN OUR PREFERRED STOCK, YOU SHOULD BE AWARE THAT DOING SO INVOLVES RISKS, INCLUDING THOSE DESCRIBED BELOW. THE VALUE OF YOUR INVESTMENT MAY DECLINE AND YOU COULD LOSE YOUR ENTIRE INVESTMENT. YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING FACTORS AS WELL AS THE OTHER INFORMATION CONTAINED IN OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS BEFORE DECIDING TO BUY OUR PREFERRED STOCK.

RISKS RELATED TO OUR OPERATIONS

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

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

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

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

WE INCUR SIGNIFICANT COSTS IN COMPLYING WITH APPLICABLE LAWS AND REGULATIONS. Any failure to make the capital investments necessary to comply with these laws and regulations could expose us to financial liability. We are subject to numerous federal, state and local provisions regulating our business and operations. We incur and expect to incur significant capital and operating expenses to comply with these laws and regulations, but may be unable to pass on those expenses to customers without experiencing volume and margin losses. For example, in the next four years, we anticipate spending approximately $340 million in total at our McPherson, Kansas and our Laurel, Montana refineries on upgrading the facilities, largely to comply with regulations requiring the reduction of sulfur levels in refined petroleum products. It is expected that over 80% of the costs will be incurred at the McPherson refinery.

We establish reserves for the future cost of meeting known compliance obligations, such as remediation of identified environmental issues. However, these reserves may prove inadequate to meet our actual liability. Moreover, amended, new or more stringent requirements, stricter interpretations of existing requirements or the future discovery of currently unknown compliance issues may require us to make material expenditures or subject us to liabilities that we currently do not anticipate.

Our failure to comply with applicable laws and regulations could subject us to administrative penalties and injunctive relief, civil remedies including fines and injunctions, and recalls of our products. We cannot predict what impact, if any, future laws or regulations may have on our potential business and operations.

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

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

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

- our oil refineries and other facilities are potential targets for terrorist attacks that could halt or discontinue production;
- our inability to negotiate acceptable contracts with unionized workers in our operations could result in strikes or work stoppages; and
- the significant inventories that we carry could be damaged or destroyed by catastrophic events, extreme weather conditions or contamination.

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

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

CONSOLIDATION AMONG THE PRODUCERS OF PRODUCTS WE PURCHASE AND CUSTOMERS FOR PRODUCTS WE SELL COULD ADVERSELY AFFECT OUR REVENUES AND OPERATING RESULTS. Consolidation has occurred among the producers of products we purchase, including crude oil and grain. Consolidation could increase the price of these products and allow suppliers to negotiate pricing and other contract terms that are less favorable to us. Consolidation also may

increase the competition among consumers of these products to enter into supply relationships with a smaller number of producers.

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

FLUCTUATIONS IN PRICES FOR CRUDE OIL AND REFINED FUEL PRODUCTS MAY ADVERSELY AFFECT OUR EARNINGS. Prices for crude oil and for gasoline, diesel fuel, and other refined petroleum products fluctuate widely. The profitability of our energy operations depends largely on the margin between the cost of crude oil that we refine and the selling prices that we obtain for our refined products. Factors influencing these prices, many of which are beyond our control, include:

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

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

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

OUR AGRONOMY BUSINESS IS DEPRESSED AND COULD CONTINUE TO UNDERPERFORM IN THE FUTURE. Demand for agronomy products in general has been adversely affected in recent years by drought and poor weather conditions, depressed grain prices, idle acreage and development of insect and disease-resistant crops. These factors could cause our agronomy marketing and distribution venture to be unable to operate at profitable margins. In addition, these and other factors, including fluctuations in the price of natural gas and other raw materials, an increase in recent years in domestic and foreign production of fertilizer and intense competition within the industry, in particular from lower-cost foreign producers, have created particular pressure on producers of fertilizers. As a result, CF Industries, Inc. a fertilizer manufacturer in which we hold a minority cooperative interest, has suffered losses in recent years as it has incurred increased prices for raw materials but has been unable to pass those increased costs on to its customers.

TECHNOLOGICAL IMPROVEMENTS IN AGRICULTURE COULD DECREASE THE DEMAND FOR OUR AGRONOMY PRODUCTS. Improved technological advances in agriculture could decrease the demand for crop nutrients, and other crop input products and services. Genetically engineered seeds that resist disease and insects or meet certain nutritional requirements could affect the demand for crop nutrients and crop protection products, as well as the demand for fuel to operate application equipment.

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

RISKS RELATED TO THIS OFFERING AND THE PREFERRED STOCK

THE INITIAL PUBLIC OFFERING PRICE FOR THE PREFERRED STOCK MAY NOT BE REPRESENTATIVE OF MARKET PRICES AFTER THIS OFFERING. The initial public offering price of our preferred stock has been determined through negotiations between the representatives of the underwriters and us and may not be representative of market prices after this offering. As a result, you may be unable to receive that price if you resell the preferred stock.

THERE MAY NOT BE ANY SECONDARY TRADING MARKET FOR THE PREFERRED STOCK, WHICH MAY LIMIT YOUR ABILITY TO RESELL YOUR SHARES. The preferred stock is a new issue of securities with no established trading market and we cannot assure you that a secondary trading market for the preferred stock will ever develop or, if one develops, that it will be maintained or provide any significant liquidity. The representatives of the underwriters have advised us that they intend to make a market in the preferred stock. However, they are not obligated to do so and may discontinue any market-making activity at any time without notice. As a result of these and other factors, if you decide to sell your preferred stock there may be either no or only a limited number of potential buyers. This, in turn, may affect the price you receive for your preferred stock or your ability to sell your preferred stock at all.

WE CANNOT ASSURE YOU THAT THE PREFERRED STOCK, IF LISTED ON THE Nasdaq NATIONAL MARKET, WILL CONTINUE TO QUALIFY FOR LISTING. Although we have applied to have the preferred stock listed on The Nasdaq National Market, we cannot assure you that if it is listed, it will continue to qualify for listing. For example, we may be unable to satisfy the requirements regarding "independent" directors as now or subsequently in effect. If our preferred stock were delisted, the liquidity of the market for the preferred stock could be reduced, possibly significantly.

IF YOU ARE ABLE TO RESELL YOUR PREFERRED STOCK, MANY FACTORS MAY AFFECT THE PRICE YOU RECEIVE, WHICH MAY BE LOWER THAN YOU BELIEVE TO BE APPROPRIATE. Many factors could affect the market price of our preferred stock, including:

- the risks relating to our business and the industries in which we operate described elsewhere in this "Risk Factors" section and elsewhere in this prospectus;
- our operating and financial performance;
- the level, direction and volatility of interest rates;

- general market, political and economic conditions;
- changes in market valuations of other integrated agricultural companies;
- the market for securities similar to the preferred stock;
- additional issuances of preferred stock by us; and
- sales of preferred stock by a few stockholders or even a single significant stockholder.

In addition, the U.S. stock markets have experienced price and volume volatility that has affected many companies' stock prices, often for reasons unrelated to the operating performance of those companies. Fluctuations such as these also may affect the market price of our preferred stock. As a result of these factors, you may only be able to sell your preferred stock at prices below those you believe to be appropriate. We cannot predict at what price the preferred stock will trade, and that price may be less than its initial public offering price or liquidation value at any time.

ISSUANCES OF SUBSTANTIAL AMOUNTS OF PREFERRED STOCK COULD ADVERSELY AFFECT THE MARKET PRICE OF OUR PREFERRED STOCK. From time to time in the future we expect to issue shares of preferred stock to our members in redemption of a portion of their patrons' equities or other equity securities and may do so as frequently as annually. We expect these shares to be freely tradeable upon issuance to our members, and some or all members who receive preferred stock may seek to sell their shares in the public market. We also expect to issue shares of preferred stock in exchange for the shares of our outstanding 8% preferred stock. Furthermore, from time to time we may sell additional shares of preferred stock to the public. We cannot predict whether future issuances or sales of our preferred stock or the availability of our preferred stock for sale will adversely affect the market price for our preferred stock or our ability to raise capital by offering equity securities.

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

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

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

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

WE CAN REDEEM THE PREFERRED STOCK AT OUR DISCRETION. We have the option of redeeming your shares at any time on or after February 1, 2008 for $25.00 per share plus any accumulated and unpaid dividends.

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

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

USE OF PROCEEDS

We expect the net proceeds of this offering to be approximately $___ million, after deducting underwriting discounts and other expenses. We intend to use the net proceeds from this offering to repay short-term indebtedness under a $550 million 364-day credit facility with a syndication of banks, of which $245.5 million was outstanding on November 30, 2002, having an average interest rate of 2.52%.

BUSINESS

We are one of the nation's leading integrated agricultural companies. As a cooperative, we are owned by farmers and ranchers and their local cooperatives from the Great Lakes to the Pacific Northwest and from the Canadian border to Texas. We buy commodities from and provide products and services to our members and other customers. We provide a wide variety of products and services, from initial agricultural inputs such as fuels, farm supplies and crop nutrients, to agricultural outputs that include grains and oilseeds, grain and oilseed processing and food products. A portion of our operations are conducted through equity investments and joint ventures whose operating results are not consolidated with our results; rather, a proportionate share of the income from those entities is included as a component in our net income under the equity method of accounting. For the fiscal year ended August 31, 2002, our total revenues were $7.8 billion.

Our operations are organized into five business segments: Agronomy, Energy, Country Operations, Grain Marketing and Processed Grains and Foods. Together these business segments create vertical integration to link producers with consumers. The first two segments, Agronomy and Energy, produce and provide for the wholesale distribution of inputs that are essential for crop production. The third segment, Country Operations, serves as our company-owned retailer of a portion of these crop inputs and also serves as the first handler of a significant portion of the crops marketed and processed by us. The fourth segment, Grain Marketing, purchases and resells grains and oilseeds originated by our Country Operations segment, by member cooperatives and by third parties. The fifth business segment, Processed Grains and Foods, converts grains and oilseeds into value-added products.

Only producers of agricultural products and associations of producers of agricultural products may be members of CHS Cooperatives. Our earnings are allocated to members based on the volume of business they do with us. Members receive earnings in the form of patronage refunds in cash and patrons' equities, which may be redeemed over time.

A portion of our operations are conducted through equity investments and joint ventures whose operating results are not consolidated with our results. For those investments and ventures for which we recognize income using the equity method of accounting, a proportionate share of the income from those entities is included as a component in our net income.

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

The international sales information and segment information in Notes 2 and 11 to the financial statements are incorporated by reference into the following business segment descriptions.

The business segment financial information presented below does not represent the results that would have been obtained had the relevant business segment been operated as an independent business.

AGRONOMY

OVERVIEW

Through our Agronomy business segment, we are engaged in the manufacture of crop nutrients and the wholesale distribution of crop nutrients and crop protection products. We conduct our agronomy operations primarily through two investments -- a 20% cooperative ownership interest in CF Industries, Inc. (CF Industries) and a 25% ownership interest in Agriliance, LLC (Agriliance). CF Industries manufactures crop nutrient products, particularly nitrogen and phosphate fertilizers, and is one of the largest suppliers to Agriliance. Agriliance is one of North America's largest wholesale distributors of crop nutrients, crop protection products and other agronomy products.

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

Our minority ownership interests in CF Industries and Agriliance are treated as investments, and therefore, those entities' revenues and expenses are not reflected in our operating results. Each of CF Industries and Agriliance has its own line of financing, without recourse to us.

OPERATIONS

CF INDUSTRIES. CF Industries is an interregional agricultural cooperative involved in the manufacturing of crop nutrient products. It is one of North America's largest producers of nitrogen and phosphate fertilizers. Through its members, CF Industries' nitrogen and phosphate fertilizer products reach farmers and ranchers in 48 states and two Canadian provinces. CF Industries conducts its operations primarily from the following facilities:

- a nitrogen manufacturing and processing facility at Donaldsonville, Louisiana;
- a phosphate mine and phosphate fertilizer plant in central Florida; and
- a 66% ownership interest in a nitrogen fertilizer manufacturing and processing facility in Alberta, Canada.

AGRILIANCE. Agriliance is the one of the nation's largest wholesale distributors of crop nutrients (fertilizers) and crop protection products (insecticides, fungicides and pesticides), accounting for an estimated 30% of the U.S. market for crop nutrients and approximately 25% of the U.S. market for crop protection products. As a wholesale distributor, Agriliance has warehouse, distribution and service facilities located throughout the country. Agriliance also owns and operates retail agricultural units in the southeastern United States. Agriliance purchases most of its fertilizer from CF Industries and Farmland Industries, Inc. and its crop protection products from Monsanto and Sygenta.

Agriliance was formed in 2000 when CHS, Farmland and Land O'Lakes, Inc. each contributed our respective agronomy businesses to the new company in consideration for ownership interests (25% each for us and Farmland and 50% for Land O'Lakes) in the venture. Our interest in Agriliance is held through United Country Brands, LLC, a holding company jointly-owned with Farmland.

PRODUCTS AND SERVICES

CF Industries manufactures crop nutrient products, primarily nitrogen and phosphate fertilizers and potash. Agriliance wholesales crop nutrient products and crop protection products that include insecticides,

fungicides, and pesticides. Agriliance also provides field and technical services, including soil testing, adjuvant and herbicide formulation, application and related services.

SALES AND MARKETING; CUSTOMERS

CF Industries sells its crop nutrient products to large agricultural cooperatives and distributors. Its largest customers are Land O'Lakes, CHS and seven other regional cooperatives that wholesale the products to their members. Agriliance distributes agronomy products through approximately 1,000 local cooperatives from Ohio to the West Coast and from the Canadian border south to Kansas. Agriliance also provides sales and services through 48 Agriliance Service Centers and other retail outlets. Agriliance's largest customer is our Country Operations business segment. In 2002, Agriliance sold approximately $1.4 billion of crop nutrient products and approximately $2.2 billion of crop protection and other products.

INDUSTRY; COMPETITION

CF INDUSTRIES. North American fertilizer producers operate in a highly competitive, global industry. Commercial fertilizers are world-traded commodities and producers compete principally on the basis of price and service. Many of the raw materials that are used in fertilizer production, such as natural gas, are often more expensive in the U.S. than other parts of the world. Crop nutrient margins have historically been cyclical; large profits generated throughout the mid-1990's attracted additional capital and expansion and the industry now suffers from excess capacity. These factors have produced depressed margins for North American fertilizer manufacturers over the past several years, although recently fertilizer margins have stabilized as natural gas prices have declined.

CF Industries competes with numerous domestic and international crop nutrient manufacturers, including Farmland.

AGRILIANCE. The wholesale distribution of agronomy products is highly competitive and dependent upon relationships with agricultural producers and local cooperatives, proximity to producers and local cooperatives and competitive pricing. Moreover, the crop protection products industry is mature with slow growth predicted for the future, which has led distributors and suppliers to turn to consolidation and strategic partnerships to benefit from economies of scale and increased market share.

Agriliance competes with other large agronomy distributors, as well as other regional or local distributors and retailers. Agriliance competes on the strength of its relationships with our members, members of Farmland and Land O'Lakes, its purchasing power and competitive pricing, and its attention to service in the field. Major competitors of Agriliance in crop nutrient distribution include Agrium, Growmark, United Suppliers and West Central. Major competitors of Agriliance in crop protection products distribution include Helena, ConAgra (UAP), Tenkoz and numerous smaller distribution companies.

SUMMARY OPERATING RESULTS

We account for our Agronomy business segment as follows:

CF INDUSTRIES. Our investment in CF Industries of $153 million on August 31, 2002, is carried on the balance sheet at cost, including allocated patronage. Since CF Industries is a cooperative, we recognize income from the investment only if we receive patronage refunds. In recent years, CF Industries has realized operating losses and, as such, it has not issued any patronage refunds to its members. Historically, crop nutrients manufacturing earnings have been cyclical in nature.

AGRILIANCE. At August 31, 2002 our investment in Agriliance was $86 million. We recognize earnings from Agriliance using the equity method of accounting, which results in including our ownership percentage of Agriliance's net earnings as equity income from investments. We apply related internal expenses against those earnings.

Summary operating results for the Agronomy business segment for the fiscal years ended August 31, 2002, 2001 and 2000 are shown below:

	2002	2001	
	(DOLLARS IN THOUSANDS)		
Revenues:			
Net sales*..................................			$ 8
Patronage dividends.........................	$ (89)	$ 196	
Other revenues..............................			
Total revenues..............................	(89)	196	8
Cost of goods sold..........................			7
Marketing, general and administrative.......	8,957	8,503	
Operating (losses) earnings.................	(9,046)	(8,307)	
Interest....................................	(1,403)	(4,529)	
Equity (income) loss from investments.......	(13,425)	(7,360)	
Income before income taxes..................	$ 5,782	$ 3,582	$
Total identifiable assets - August 31.......	$ 242,015	$ 230,051	$ 2

* Net sales in 2000 reflect sales from our agronomy business prior to the time it was contributed to Agriliance. Earnings from our interest in Agriliance are shown as equity (income) loss from investments.

ENERGY

OVERVIEW

We are the nation's largest cooperative energy company, with operations that include petroleum refining and pipelines; the supply, marketing and distribution of refined fuels (gasoline, diesel, and other energy products); the blending, sale and distribution of lubricants; and the wholesale and retail supply of propane. Our Energy business segment processes crude oil into refined petroleum products at refineries in Laurel, Montana (wholly-owned) and McPherson, Kansas (owned by an entity in which we have an approximate 74.5% ownership interest) and sells those products under the Cenex brand to our member cooperatives and others through a network of approximately 1,400 independent retailers, including approximately 800 that operate Cenex/Ampride convenience stores.

OPERATIONS

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

The Laurel facility processes approximately 55,000 barrels of crude oil per day to produce refined products that consist of approximately 42% gasoline, 30% diesel and 28% asphalt and other residual products. Refined fuels produced at Laurel, Montana are available via the Yellowstone Pipeline to western Montana terminals and to Spokane and Moses Lake, Washington, south via common carrier pipelines to Wyoming terminals and Denver, Colorado, and east via our wholly-owned Cenex Pipeline to Glendive, Montana, and Minot and Fargo, North Dakota.

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

The McPherson refinery processes approximately 80,000 barrels of crude oil per day to produce refined products that consist of approximately 57% gasoline, 34% diesel and other distillates, and 9% propane and other products. Approximately 90% of the refined fuels are shipped via NCRA's proprietary products pipeline to its terminal in Council Bluffs, Iowa and to other markets via common carrier pipelines. The balance of the fuels are loaded into trucks at the refinery.

OTHER ENERGY OPERATIONS. We own and operate ten propane plants and three propane terminals, four asphalt terminals, three lubricants blending and packaging facilities, and 36 convenience stores. We also own and lease a fleet of liquid and pressure trailers and tractors which are used to transport refined fuels, propane and anhydrous ammonia.

PRODUCTS AND SERVICES

The Energy business segment produces and sells (primarily wholesale) gasoline, diesel, propane, asphalt, and lubricants. It obtains the petroleum products that it sells both from the Laurel and McPherson refineries and from third parties.

SALES AND MARKETING; CUSTOMERS

We make approximately 85% of our refined fuel sales to members, with the balance sold to non-members. Sales are made wholesale to member cooperatives and through a network of independent retailers that operate convenience stores under the Cenex/Ampride trade name. We sold approximately 1.3 billion gallons of gasoline and approximately 1.2 billion gallons of diesel fuel in fiscal year 2002. We also wholesale auto and farm machinery lubricants to both members and non-members. In fiscal year 2002, energy operations sold approximately 26.4 million gallons of lubricants. We are one of the nation's largest propane wholesalers. In fiscal year 2002, energy operations sold approximately 0.7 billion gallons of propane. Most of the propane sold in rural areas is for heating and agricultural consumption. Annual sales volumes of propane vary greatly depending on weather patterns and crop conditions.

INDUSTRY; COMPETITION

Governmental regulations and policies, particularly in the areas of taxation, energy and the environment, have a significant impact on our energy operations segment. Like many other refineries, the Energy business segment's refineries are currently focusing their capital spending on reducing pollution. In particular, these refineries are currently working to comply with the federal government's initiatives to lower the sulfur content of gasoline and diesel. We currently expect that the cost of compliance, which will be spread out over the next four years, will be approximately $340 million in total for the McPherson and Laurel refineries. It is expected that over 80% of the costs will be incurred at the McPherson refinery.

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

The refining and wholesale fuels business is very competitive. Among our competitors are some of the world's largest integrated petroleum companies, which have their own crude oil supplies, distribution and marketing systems. We also compete with smaller domestic refiners and marketers in the midwestern and northwestern United States, with foreign refiners who import products into the United States and with producers and marketers in other industries supplying other forms of energy and fuels to consumers. Given the commodity

nature of the end products, profitability in the refining and marketing industry depends largely on margins, as well as operating efficiency, product mix, and costs of product distribution and transportation. The retail gasoline market is highly competitive, with much larger competitors that have greater brand recognition and distribution outlets throughout the country and the world. Our owned and non-owned retail outlets are located primarily in the southern, midwestern and northwestern United States.

SUMMARY OPERATING RESULTS

Summary operating results for the Energy business segment for the fiscal years ended August 31, 2002, 2001 and 2000 are shown below:

	2002	2001	
	(DOLLARS IN THOUSANDS)		
Revenues:			
Net sales	$ 2,657,689	$ 2,781,243	$ 2
Patronage dividends	458	712	
Other revenues	6,392	4,036	
Total revenues	2,664,539	2,785,991	2
Cost of goods sold	2,489,352	2,549,099	2
Marketing, general and administrative	66,731	48,432	
Operating earnings	108,456	188,460	
Interest	16,875	25,097	
Equity loss (income) from investments	1,166	4,081	
Minority interests	14,604	34,713	
Income before income taxes	$ 75,811	$ 124,569	$
Total identifiable assets - August 31	$ 1,305,828	$ 1,154,036	$ 1

COUNTRY OPERATIONS

OVERVIEW

Our Country Operations business segment purchases wheat and other grains from our producer members and provides our members and producers with access to a full range of products and services including farm supplies, programs for crop and livestock production, hedging and insurance services, and agricultural operations financing. Country Operations operates at approximately 300 locations dispersed throughout Minnesota, North Dakota, South Dakota, Nebraska, Montana, Idaho, Washington and Oregon. Most of these locations purchase grain from farmers and sell agronomy products, energy products and feed to those same producers and others, although not all locations provide every product and service.

PRODUCTS AND SERVICES

GRAIN PURCHASING. We are one of the largest country elevator operators in North America. Through a majority of our elevator locations, the Country Operations business segment purchases grain from member and non-member producers and other elevators and grain dealers. Most of the grain purchased is either sold through our Grain Marketing business segment or used for local feed and processing operations. In the year ended August 31, 2002, we purchased approximately 280 million bushels of grain, primarily wheat (131 million bushels), corn (77 million bushels) and soybeans (45 million bushels). Of these bushels, 255 million were purchased from members and 239 million were sold through the Grain Marketing business segment.

FARM SUPPLIES. Country Operations manufactures and sells farm supplies, both directly and through ownership interests in other entities. These include seed; plant food; energy products; animal feed ingredients, supplements and products; animal health products; and crop protection products. We sell agronomy products at 160 locations, feed products at 135 locations and energy products at 94 locations. Farm supplies are purchased through cooperatives whenever possible.

FINANCIAL SERVICES. We have provided open account financing to more than 150 of our members that are cooperatives (Cooperative Association Members) in the past year. These arrangements involve the discretionary extension of credit in the form of term and seasonal loans and can also be used as a clearing account for settlement of grain purchases and as a cash management tool. A substantial part of the term and seasonal loans are sold to the National Bank for Cooperatives (CoBank), with CoBank purchasing up to 90% of any loan. Our borrowing arrangements with CoBank limit loan balances outstanding under this program to not more than $150.0 million at any one time.

Through our wholly-owned subsidiary Fin-Ag, Inc., we provide seasonal cattle feeding and swine financing loans, facility financing loans and crop production loans. Fin-Ag, Inc. also provides consulting services to member cooperatives. Most loans are sold to CoBank under a separate program from that described above, under which we have guaranteed a portion of the loans. Our exposure at August 31, 2002 was approximately $40.8 million. Under our borrowing arrangements, the maximum amount of the loans outstanding at any one time may not exceed $125.0 million and our maximum guarantee exposure would be $48.5 million.

Our wholly-owned subsidiary Country Hedging, Inc., which is a registered futures commission merchant and a clearing member of both the Minneapolis Grain Exchange and the Kansas City Board of Trade, is a full service commodity futures and options broker.

Ag States Agency, LLC is an independent insurance agency in which we hold a majority ownership interest. It sells insurance, including group benefits, property and casualty, and bonding programs. Its more than 1,700 customers are primarily agricultural businesses, including local cooperatives and independent elevators, oil stations, agronomy and feed/seed plants, implement dealers, fruit and vegetable packers/warehouses, and food processors.

INDUSTRY; COMPETITION

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

The financing operations are not significant, however, competitors for our financing operations are primarily other financial institutions. We compete primarily on the basis of price, services and patronage. Country Hedging's competitors include international brokerage firms, national brokerage firms, regional brokerage firms (both cooperatives and non-cooperatives) as well as local introducing brokers, with competition driven both by price and level of service. Ag States competes with other insurance agencies, primarily on the basis of price and services.

SUMMARY OPERATING RESULTS

Summary operating results for the Country Operations business segment for the fiscal years ended August 31, 2002, 2001 and 2000 are shown below:

	2002	2001
	(DOLLARS IN THOUSA	
Revenues:		
Net sales	$ 1,474,553	$ 1,577,268
Patronage dividends	2,572	3,683
Other revenues	80,789	80,479
Total revenues	1,557,914	1,661,430
Cost of goods sold	1,471,422	1,569,884
Marketing, general and administrative	47,995	53,417
Operating earnings	38,497	38,129
Interest	13,851	15,695
Equity income from investments	(283)	(246)
Minority interests	786	385
Income before income taxes	$ 24,143	$ 22,295
Total identifiable assets - August 31	$ 799,711	$ 679,053

GRAIN MARKETING

OVERVIEW

We are the nation's largest cooperative marketer of grain and oilseed, handling about 1.1 billion bushels annually. During fiscal year 2002, we purchased approximately 76% of our total grain volumes from individual and member cooperatives and the Country Operations business segment, with the balance purchased from third parties. We arrange for the transportation of the grains either directly to customers or to our owned or leased grain terminals and elevators pending delivery to domestic and foreign purchasers. We conduct most of our Grain Marketing operations directly, although we do conduct some of our business through three joint ventures in which we have a 50% ownership.

OPERATIONS

The Grain Marketing segment purchases grain directly and indirectly from agricultural producers primarily in the Midwestern and Western United States. The purchased grain is typically sold for future delivery at a specified location. We are responsible for handling the grain and arranging for its transportation to that location. Our ability to arrange efficient transportation, including loading capabilities onto unit trains, ocean-going vessels, and barges, is a significant part of the service we offer to our customers. Rail, vessel, barge and truck transportation is carried out by third parties, often under long-term freight agreements with us. Grain intended for export is usually shipped by rail or barge to an export terminal, where it is loaded onto ocean-going vessels. Grain intended for domestic use is usually shipped by rail or truck to various locations throughout the country.

We own export terminals, river terminals, and elevators involved in the handling and transport of grain. River terminals at Kansas City, Missouri, St. Paul, Savage, and Winona, Minnesota, and Davenport, Iowa are used to load grains onto barges for shipment to both domestic and export customers via the Mississippi River System. Our export terminal at Superior, Wisconsin provides access to the Great Lakes and St. Lawrence Seaway, and an export terminal at Myrtle Grove, Louisiana serves the Gulf market. In the Pacific Northwest, we conduct our grain marketing operations through United Harvest, LLC (a 50% joint venture with United Grain Corporation) and TEMCO, LLC (a 50% joint venture with Cargill, Incorporated). United Harvest, LLC operates grain terminals in Vancouver and Kalama, Washington. TEMCO, LLC operates a large export terminal in Tacoma, Washington. These facilities serve the Pacific market, as well as domestic grain customers in the Western United States. Grain Suppliers, LLC (a 50% joint venture with Commodity Specialists Company) will begin operating an elevator facility in Friona, Texas and one in Collins, Mississippi beginning in late fiscal year 2003 or early fiscal year 2004.

Grain Marketing purchases most of its grain during the summer and fall harvest period. Because of our geographic location and the fact that it is further from our export facilities, grain tends to be sold later than in other parts of the country. However, as many producers have significant on-farm storage capacity and in light of our own storage capacity, the Grain Marketing business segment buys and ships grain throughout the year. Due

18

to the amount of grain purchased and held in inventory, the Grain Marketing business segment has significant working capital needs at various times of the year. The amount of borrowings for this purpose, and the interest rate charged on those borrowings, directly affect the profitability of the Grain Marketing segment.

PRODUCTS AND SERVICES

The primary grains purchased by the Grain Marketing business segment for the year ended August 31, 2002 were wheat (362 million bushels), corn (393 million bushels) and soybeans (241 million bushels). Of the total grains purchased by the Grain Marketing segment during the year ended August 31, 2002, 571 million bushels were purchased from our individual and cooperative association members, 239 million bushels were purchased from the Country Operations business segment and the remainder were purchased from third parties.

SALES AND MARKETING; CUSTOMERS

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

INDUSTRY; COMPETITION

The Grain Marketing business segment competes for both the purchase and sale of grain. Competition is intense and margins are low. Some competitors are integrated food producers, which may also be customers. A few major competitors have substantially greater financial resources than we do.

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

The Grain Marketing business segment competes for grain sales based on price, services and ability to provide the desired quantity and quality of grains required. Location of facilities is a major factor in the ability to compete. Grain marketing operations compete with numerous grain merchandisers, including major grain merchandising companies such as Archer Daniels Midland (ADM), Cargill, Incorporated (Cargill), ConAgra, Bunge and Louis Dreyfus, each of which handles grain volumes of more than one billion bushels annually.

The results of the grain marketing business may be adversely affected by relative levels of supply and demand, both domestic and international, commodity price levels (including grain prices reporting on national markets) and transportation costs and conditions. Supply is affected by weather conditions, disease, insect damage, acreage planted and government regulations and policies. Demand may be affected by foreign governments and their programs, relationships of foreign countries with the United States, the affluence of foreign countries, acts of war, currency exchange fluctuations and substitution of commodities. Demand may also be affected by changes in eating habits, by population growth, and by increased or decreased per capita consumption of some products.

19

SUMMARY OPERATING RESULTS

Summary operating results for the Grain Marketing business segment for the fiscal years ended August 31, 2002, 2001 and 2000 are shown below:

	2002	2001	20
		(DOLLARS IN THOUSANDS)	
Revenues:			
Net sales..............................	$ 3,787,322	$ 3,514,314	$ 3,453

Patronage dividends	497	840	
Other revenues	21,902	22,964	15
Total revenues	3,809,721	3,538,118	3,470
Cost of goods sold	3,778,838	3,514,575	3,439
Marketing, general and administrative	22,213	22,396	21
Operating earnings	8,670	1,147	8
Interest	4,807	8,144	8
Equity income from investments	(4,257)	(4,519)	(6
Income (loss) before income taxes	$ 8,120	$ (2,478)	$ 6
Total identifiable assets - August 31	$ 481,232	$ 345,696	$ 321

PROCESSED GRAINS AND FOODS

OVERVIEW

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

OILSEED PROCESSING AND REFINING

Our oilseed processing operations convert soybeans into soybean meal, soyflour, crude soyoil, refined soybean oil and associated by-products. These operations are conducted at a facility in Mankato, Minnesota that can crush 39 million bushels of soybeans on an annual basis, producing approximately 940,000 short tons of soybean meal and 460 million pounds of crude soybean oil. The same facility is able to refine approximately 1 billion pounds of refined soybean oil annually. Another crushing facility is under construction in Fairmont, Minnesota that will have a crushing capacity and crude soyoil output similar to the Mankato facility. The facility in Fairmont is anticipated to be ready for the 2003 harvest and is estimated to cost approximately $90 million, of which approximately $23 million has been spent through August 31, 2002.

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

Our soy processing facilities are located in areas with a strong production base of soybeans and end-user market for the meal and soyflour. We purchase virtually all of our soybeans from members. The oilseed crushing operations currently produce approximately 45% of the crude oil that we refine; we purchase the balance from outside suppliers.

Our customers for refined oil are principally large food product companies located throughout the United States. However, over 50% of the customers are located in the Midwest due to lower freight costs and slightly higher profitability. The largest customer for refined oil products is Ventura Foods, LLC (Ventura Foods), in which we hold a 50% ownership interest and with which we have a long-term supply agreement to supply minimum quantities of edible soybean oils as long as we maintain a minimum 25.5% ownership interest and the price is comparative with other suppliers of the product. Our sales to Ventura Foods were $49.8 million in fiscal year 2002. We also sell soymeal to over 500 customers, primarily feed lots and feed mills in southern Minnesota; six of these customers accounted for approximately 61% of the soymeal sold. Land O'Lakes/Farmland Feeds, LLC accounts for 29% of soymeal sold and Commodity Specialists Company accounts for 10% of soymeal sold. We sell soyflour to customers in the baking industry both domestically and for export.

The refined soybean products industry is highly competitive. Major industry competitors include ADM, Cargill, Ag Processing, Inc., and Bunge. These and other competitors have acquired other processors and have expanded existing plants, or are proposing to construct new plants, both domestically and internationally. Price, transportation costs, services and product quality drive competition. We estimate that we have a market share of approximately 6% to 8% of the domestic refined soybean oil market and less than 3% of the domestic soybean crushing capacity.

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

WHEAT MILLING

In January 2002, we formed Horizon Milling, LLC with Cargill. We own 24% of Horizon Milling and Cargill owns the remaining 76%. Horizon Milling is the largest U.S. wheat miller. Our sales of wheat and durum to Horizon Milling during fiscal year 2002 were $114.4 million.

We ceased operations at our Huron, Ohio mill prior to the formation of Horizon Milling and our facility lease expired on September 30, 2002. We are currently dismantling and negotiating for the sale of the milling equipment. The Processed Grains and Foods business segment established an impairment of approximately $6.5 million on the equipment during the fourth quarter of fiscal year 2002.

FOODS

We have two primary areas of focus in the foods area: Ventura Foods, which produces oilseed based products such as margarine and salad dressing and of which we own 50%, and the production of Mexican foods such as tortillas, tortilla chips and entrees.

VENTURA FOODS. Ventura Foods manufactures, packages, distributes and markets bulk margarine, salad dressings, mayonnaise, salad oils, syrups, soup bases and sauces, many of which utilize soybean oil as a primary ingredient. Approximately 20% of Ventura Food's volume, based on sales revenues, comes from products for which Ventura Foods owns the brand, and the remainder comes from products that it produces for third parties. A variety of Ventura Food's product formulations and processes are proprietary to it or its customers. Ventura Foods is the largest manufacturer of margarine in the U.S. and is a major producer of many other products.

Ventura Foods has 13 manufacturing and distribution locations across the United States. It sources its raw materials, which consists primarily of soybean oil, canola oil, cottonseed oil, peanut oil and various ingredients and supplies, from various national suppliers, including our oilseed processing and refining operations. It sells the products it manufactures to third parties as a contract manufacturer, as well as directly to retailers, food distribution companies and large institutional food service companies. Ventura Foods' sales are approximately 65% in foodservice and the remainder split between retail and industrial customers who use edible oil products as ingredients in foods they manufacture for resale.

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

Ventura Foods was created in 1996 and at the time we owned 40% and Wilsey Foods, Inc., a majority owned subsidiary of Mitsui USA, Inc, owned 60%. In March 2000, Wilsey Foods, Inc. sold to us an additional 10% interest bringing our total equity investment in Ventura Foods to 50%. We account for the Ventura Foods investment under the equity method of accounting.

MEXICAN FOODS. Since June 2000, we have acquired three regional producers of Mexican foods. Through our Mexican foods operations, we manufacture, package and distribute tortillas, tortilla chips and prepared frozen Mexican food products such as burritos and tamales. We sell these products under a variety of local and regional brand names and also produces private label products and co-packs for customers. The current operational focus is on integrating these disparate operations into a single business entity with consistent standards, systems and sales practices. We are also working to develop a national brand from our predominantly local and regional brand platforms.

The tortilla and tortilla chip industry in the United States is comprised of a large number of small regional manufacturers and a few dominant manufacturers. We estimate that our Mexican foods operation has approximately a 1.5% share of the national tortilla market and less than a 1% share of the national tortilla chip market. On a national basis, the primary competitors are large chip and snack companies such as Frito Lay.

SUMMARY OPERATING RESULTS

Summary operating results for the Processed Grains and Foods business segment for the fiscal years ended August 31, 2002, 2001 and 2000 are shown below:

	2002	2001	
	(DOLLARS IN THOUSANDS)		
Revenues:			
Net sales*..............................	$ 496,084	$ 662,726	$ 5
Patronage dividends......................	260	339	
Other revenues...........................	(1,469)	(238)	

Total revenues		494,875		662,827		5
Cost of goods sold		457,538		619,184		5
Marketing, general and administrative		36,930		44,870		
Operating earnings (losses)		407		(1,227)		
Interest		9,514		13,026		
Equity income from investments		(41,331)		(35,505)		(
Income before income taxes	$	32,224	$	21,252	$	
Total identifiable assets - August 31	$	439,942	$	430,871	$	3

* The sales decline in 2002 is primarily due to the contribution of our wheat milling business to Horizon Milling in January 2002. Since January 2002 earnings or losses from our interest in Horizon Milling are shown as equity income from investments.

PRICE RISK AND HEDGING

Depending on the terms and conditions of the particular contract, we incur risks of carrying inventory, including risks related to price changes and performance (including delivery, quality, quantity and shipment period) whenever we enter into a commodity purchase commitment. We are exposed to risk of loss in the market value of positions held, consisting of inventory and purchase contracts at a fixed or partially fixed price in the event market prices decrease. We are also exposed to risk of loss on our fixed price or partially fixed price sales contracts in the event market prices increase.

To reduce the price change risks associated with holding fixed price commitments, we generally take opposite and offsetting positions by entering into commodity futures contracts (either a straight futures contract or an options futures contract) on regulated commodity futures exchanges for grain, and regulated mercantile exchanges for refined products and crude oil. The crude oil and most of the grain and oilseed volume handled by us can be hedged. Some grains cannot be hedged because there are no futures for certain commodities. For those commodities, risk is managed through the use of forward sales and different pricing arrangements and to some extent cross-commodity futures hedging. While hedging activities reduce the risk of loss from changing market values of inventory, such activities also limit the gain potential which otherwise could result from changes in market prices of inventory. Our policy is to generally maintain hedged positions in grain. Our profitability from operations is primarily derived from margins on products sold and grain merchandised, not from hedging transactions. Hedging arrangements do not protect against nonperformance of a contract.

When a futures contract is entered into, an initial margin deposit must be sent to the applicable exchange or broker. The amount of the deposit is set by the exchange and varies by commodity. If the market price of a

short futures contract increases, then an additional margin deposit (maintenance margin) would be required. Similarly, if the price of a long futures contract decreases, a maintenance margin deposit would be required and sent to the applicable exchange. Subsequent price changes could require additional maintenance margins or could result in the return of maintenance margins.

EMPLOYEES

As of August 31, 2002, we had approximately 6,750 full and part-time employees, which included approximately 550 employees of NCRA. Of that total, approximately 2,180 were employed in the Energy segment, 2,260 in the Country Operations segment (not including an estimated 720 seasonal and temporary employees), 390 in the Grain Marketing segment, 970 in the Processed Grains and Foods business segment and 230 in corporate and administrative functions.

In addition to those employed directly by us, many employees work directly for the joint ventures in which we have an ownership interest. All of the employees in the Agronomy segment and a portion of the Grain Marketing and Processed Grains and Foods segments are employed as such.

Employees in certain areas are represented by collective bargaining agreements. Refinery workers in Laurel, Montana (233 employees), are represented by agreements with two unions (Paper, Allied-Industrial, Chemical and Energy Workers International Union (PACE) and Oil Basin Pipeliners Union (OBP)), for which agreements are in place through 2006 for PACE and under negotiation for OBP with anticipation of a successful resolution. The contracts covering the McPherson, Kansas refinery (254 employees in the PACE union) are also in place through 2006. There are approximately 160 employees in transportation and lubricant plant operations that are covered by collective bargaining agreements that expire at various times. Production workers in grain marketing operations (143 employees) are represented by agreements with four unions which expire at various times from 2003 through 2005. Finally, certain production workers in Oilseed Processing and Refining operations are subject to collective bargaining agreements with the American Federation of Grain Millers (126 employees) and the Pipefitters' Union (2 employees). Both of these contracts have expired and are currently being negotiated. We anticipate a successful resolution.

MEMBERSHIP AND AUTHORIZED CAPITAL

INTRODUCTION

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

DISTRIBUTION OF NET INCOME; PATRONAGE DIVIDENDS

We are required by our organizational documents annually to distribute net earnings derived from patronage business with members, after payment of dividends on equity capital, to members on the basis of patronage, except that our board of directors may elect to retain and add to our unallocated capital reserve an amount not to exceed 10% of the distributable net income from patronage business.

These distributions, referred to as "patronage dividends," may be distributed in cash, patrons' equities, revolving fund certificates, securities of CHS or others or any combination designated by our board of directors. Since 1998, our board of directors has distributed patronage dividends in the form of 30% cash and 70% patrons' equities (see "-- Patrons' Equities" below). Our board of directors may change the mix in the form of the patronage dividends in the future. In making distributions, our board of directors may use any method of allocation as may, in its judgment, be reasonable and equitable. Patronage dividends distributed during the years ended August 31, 2002, 2001 and 2000 were $132.6 million ($40.1 million in cash), $86.4 million ($26.1 million in cash) and $59.1 million($17.9 million in cash), respectively.

PATRONS' EQUITIES

Patrons' equities are in the form of a book entry and represent a right to receive cash when redeemed by us. Patrons' equities form part of our capital, do not bear interest and are not subject to redemption upon request of a member. Patrons' equities are redeemable only at the discretion of our board of directors and in accordance with the terms of a redemption policy adopted by our board of directors, which may be modified at any time without member consent. Our current policy is to redeem the equities of those members who were age 61 and older on June 1, 1998 when they reach the age of 72 and upon death. The current policy is also to redeem equities older than 10 years held by active members on a pro-rata basis as determined by our board of directors.

Redemptions of patrons' and other equities, including equity participation units, during the years ended August 31, 2002, 2001 and 2000 were $31.1 million, $33.0 million and $28.7 million, respectively.

GOVERNANCE

We are managed by a board of directors of at least 17 persons elected by our members at our annual meeting. Terms of directors are staggered so that no more than seven directors are elected in any year. Our board of directors is currently comprised of 17 directors. Our articles of incorporation and bylaws may be amended only upon approval of a majority of the votes cast at an annual or special meeting of the members, except for the higher vote described under "-- Certain Antitakeover Measures" below.

MEMBERSHIP

Our membership is restricted to certain producers of agricultural products and to associations of producers of agricultural products that are organized and operating so as to adhere to the provisions of the Agricultural Marketing Act and the Capper-Volstead Act, as amended. Our board of directors may establish other qualifications for membership as it may from time to time deem advisable. As a membership cooperative, we do not require our members to purchase capital stock. We may issue equity or debt securities, on a patronage basis or otherwise, to our members, but unless authorized in our bylaws or by our board of directors, such securities are not entitled to any voting, membership or other rights to participate in our affairs and are not transferable without the prior consent of our board of directors. We have two classes of outstanding membership. Individual members are individuals or entities actually engaged in the production of agricultural products, including both natural persons and any legal entity owned or controlled by individual farmers or their families, such as joint ventures, corporations, partnerships, limited liability companies and other entities. Cooperative associations are associations of agricultural producers, either cooperatives or other associations organized and operated under the provisions of the Agricultural Marketing Act and the Capper-Volstead Act.

VOTING RIGHTS

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

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

In December 2002, our members approved an amendment to our bylaws that eliminated the number of producers as a factor in determining the number of votes of cooperative association members and patrons' associations.

Most matters submitted to a vote of our members require the approval of a majority of the votes cast at a meeting of our members, although the approval of not less than two-thirds of the votes cast at a meeting is required to approve a merger, consolidation, liquidation, dissolution, or the sale of all or substantially all of our assets.

DEBT AND EQUITY INSTRUMENTS

We may issue debt and equity instruments to our current members and patrons, on a patronage basis or otherwise, and to persons who are neither members nor patrons, but unless authorized in our bylaws or by our board of directors, such equities are not entitled to any voting, membership or other rights to participate in our affairs and are not transferable without the prior consent of our board of directors. In addition, debt or equity issued by us is subject to a first lien in favor of us for all indebtedness of the holder thereof to us. As of August 31, 2002, our outstanding capital included patrons' equities (consisting of capital equity certificates and non-patronage earnings certificates), 8% Preferred Stock and certain capital reserves. A best efforts offering of 8% Preferred Stock begun in late 2001 has been suspended after raising approximately $9.5 million in new capital.

DISTRIBUTION OF ASSETS UPON DISSOLUTION; MERGER AND CONSOLIDATION

In the event of our dissolution, liquidation or winding, whether voluntary or involuntary, all debts and liabilities would be paid first according to their respective priorities. As more particularly provided in our bylaws, the remaining assets would be paid to the holders of equity capital to the extent of their interests and any excess would be paid to patrons on the basis of their past patronage. Our bylaws provide for the allocation among the members and nonmember patrons of the consideration received in any merger or consolidation to which we are a party.

CERTAIN ANTITAKEOVER MEASURES

Our governing documents may be amended upon the approval of a majority of the votes cast at an annual or special meeting. However, if our board of directors, in its sole discretion, declares that a proposed amendment to our governing documents involves or is related to a "hostile takeover," the amendment must be adopted by 80% of the total voting power of our members. The term "hostile takeover" is not further defined in the Minnesota cooperative law or our governing documents.

TAX TREATMENT

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

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

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

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data below has been derived from our consolidated financial statements for the periods indicated below. The selected audited consolidated financial data for the three years ended August 31, 2002, should be read in conjunction with our consolidated financial statements and notes to them included elsewhere in this prospectus.

	YEARS ENDED AUGUST 31,			
	2002	2001	2000	1999
	(DOLLARS IN THOUSANDS, EXCEPT FOR RATIO			
Income Statement Data:				
Revenues:				
Net sales..................	$ 7,731,867	$ 7,753,012	$ 8,497,850	$ 6,381,334
Patronage dividends.........	3,885	5,977	5,494	5,876
Other revenues.............	109,459	116,254	97,471	81,180
	7,845,211	7,875,243	8,600,815	6,468,390
Cost of goods sold..........	7,513,369	7,470,203	8,300,494	6,193,287
Marketing, general and administrative........	187,292	184,046	155,266	152,031
Operating earnings	144,550	220,994	145,055	123,072
Interest....................	42,455	61,436	57,566	42,438

Equity (income) loss from investments...............	(58,133)	(28,494)	(28,325)	(22,363)	
Minority interests..........	15,390	35,098	24,546	10,017	
Income before income taxes.....	144,838	152,954	91,268	92,980	
Income taxes...................	18,700	(25,600)	3,880	6,980	
Net income.....................	$ 126,138	$ 178,554	$ 87,388	$ 86,000	$
Balance Sheet Data (at end of period):					
Working capital............	$ 249,115	$ 305,280	$ 214,223	$ 219,045	$
Net property, plant and equipment.................	1,057,421	1,023,872	1,034,768	968,333	
Total assets................	3,481,727	3,057,319	3,172,680	2,787,664	
Long-term debt, including current maturities........	572,124	559,997	510,500	482,666	
Total equities..............	1,289,638	1,261,153	1,164,426	1,117,636	
Ratio of earnings to fixed charges and preferred dividends(2)	3.4x	3.4x	2.6x	2.5x	

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(1) Reflects our change in fiscal year end from May 31 to August 31.

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

The selected financial statement information below has been derived from our five business segments, and Corporate and Other, for the fiscal years ended August 31, 2002, 2001 and 2000. The intracompany sales between segments were $683.8 million, $782.5 million and $718.2 million for the fiscal years ended August 31, 2002, 2001 and 2000, respectively.

SUMMARY FINANCIAL DATA BY BUSINESS SEGMENT

	AGRONOMY				
	2002	2001	2000	2002	
			(DOLLARS IN THOUSANDS)		
Revenues:					
Net sales...................			$ 808,659	$ 2,657,689	$
Patronage dividends.........	$ (89)	$ 196	224	458	
Other revenues..............			5,817	6,392	

Total revenues.................	(89)	196	814,700	2,664,539
Cost of goods sold............			764,744	2,489,352
Marketing, general and administrative..........	8,957	8,503	20,832	66,731
Operating (losses) earnings	(9,046)	(8,307)	29,124	108,456
Interest......................	(1,403)	(4,529)	(3,512)	16,875
Equity (income) loss from investments................	(13,425)	(7,360)	4,336	1,166
Minority interests............				14,604
Income before income taxes.....	$ 5,782	$ 3,582	$ 28,300	$ 75,811
Total identifiable assets - August 31.....................	$ 242,015	$ 230,051	$ 228,277	$ 1,305,828

	COUNTRY OPERATIONS			GRA
	2002	2001	2000	2002
	(DOLLARS IN THOUSANDS)			
Revenues:				
Net sales..................	$ 1,474,553	$ 1,577,268	$ 1,409,892	$ 3,787,322
Patronage dividends.........	2,572	3,683	3,830	497
Other revenues.............	80,789	80,479	68,436	21,902
Total revenues.................	1,557,914	1,661,430	1,482,158	3,809,721
Cost of goods sold............	1,471,422	1,569,884	1,404,120	3,778,838
Marketing, general and administrative..........	47,995	53,417	44,136	22,213