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U.S. Department of Agriculture

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Risk Management Challenges In A Changing Crop Nutrients Industry

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CHS Inc.

Crop Nutrients

- Crop Nutrients marketplace defined
- Changes in crop nutrients industry landscape
- Crop nutrients hedging strategies

Who we are

CHS is a diversified Fortune 200 company providing essential grain, food and energy resources to businesses and consumers around the world.

About CHS

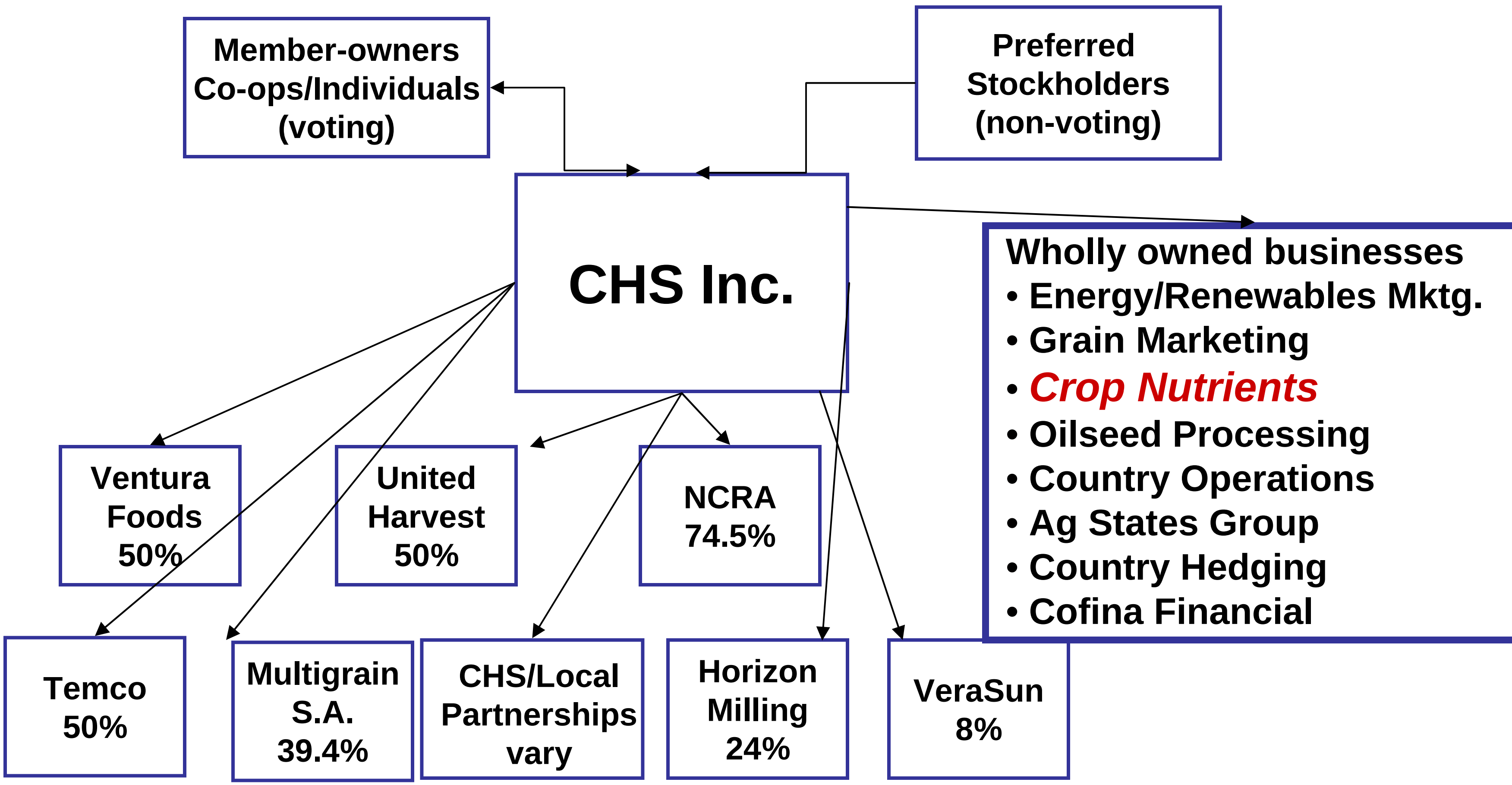
Serves producers in 26 states and consumers in 50 states

Supplies grain in 60 countries worldwide

7,000 employees



Structure


Member-owners Co-ops/Individuals (voting)
Preferred Stockholders (non-voting)
CHS Inc.
Wholly owned businesses
• Energy/Renewables Mktg.
• Grain Marketing
• *Crop Nutrients*
• Oilseed Processing
• Country Operations
• Ag States Group
• Country Hedging
• Cofina Financial
Ventura Foods 50%
United Harvest 50%
NCRA 74.5%
Temco 50%
Multigrain S.A. 39.4%
CHS/Local Partnerships vary
Horizon Milling 24%
VeraSun 8%

CHS Crop Nutrients

- Distribution system serving North America’s largest dealer network with more than 7 million tons sold annually
- Global product sourcing, including a deep water port at Galveston, Texas, and river facilities at Memphis, Tenn.; Little Rock, Ark.; Muscatine, Iowa; Winona and St. Paul, Minn.
- Owns/leases 90 crop nutrients terminals. Backed by CHS expertise in risk management, global markets, logistics and distribution complementary to crop nutrients business

Crop Nutrients Marketplace

- Nitrogen
  - Ammonia (NH_3)
  - Urea (Dry)
  - UAN (Liquid)
- Potash
- Phosphates
- Others - Micronutrients

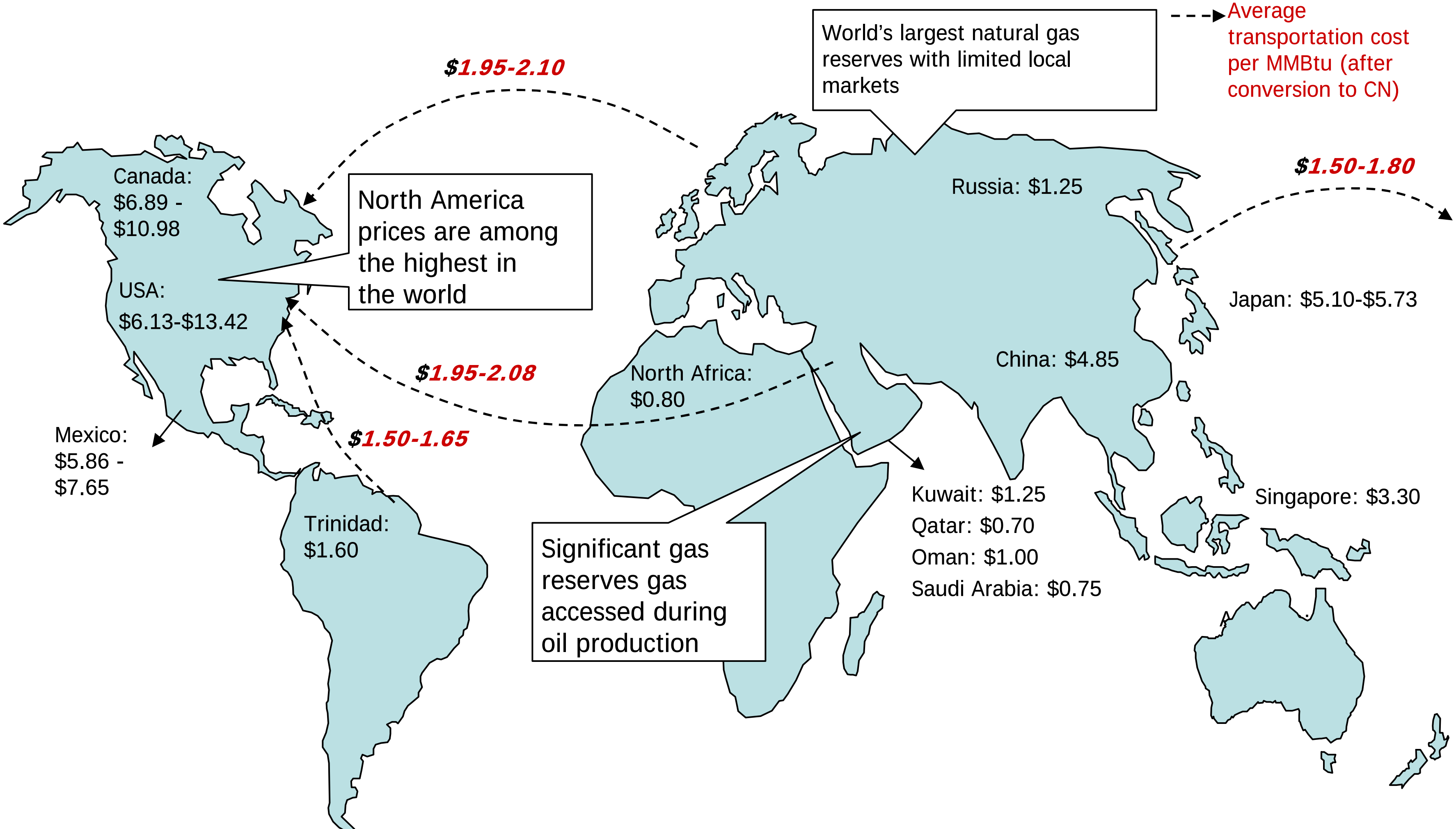
Changes In Crop Nutrients Marketplace Landscape

Natural Gas


U.S. CN manufacturers hit with margin squeeze-leaving them them globally noncompetitive
16.000
15.000
14.000
13.000
12.000
11.000
10.000
9.000
8.000
7.000
6.000
5.000
4.415
4.000
DTN ProphetX
Q3
Q4
2005
Q2
Q3
Q4
2006
Q2
Q3
Q4
2007
Q2
Q3
Q4
2008
Q2
Q3
Q4
200
1 Wk

Global Natural Gas Prices

U.S. manufacturers hit with margin squeeze leaving them globally noncompetitive



*Single values represent price in Sept 2005.

Source: American Chemistry Council; The Fertilizer Institute.

Agway
Arcadian
Borden
Chevron
Coastal Chem
Farmland
First Miss
Freeport
IMC Global
Kalium
LaRoche
Miss Chem
Mobil
Mulberry
Nu-West
Occidental
Royster Clark
Texasgulf
Unocal
US Chem
Viridian
Vigoro

1. Mosaic 30%
2. PCS 26%
3. Agrium 13%
4. CF 8%
5. Terra 6%
6. Koch +6%

89%

Urea

1. ~~CF 22%~~
2. Agrium 16%
3. Terra 13%
4. Mosaic 13%
5. PCS 12%
6. ~~Yara 7%~~

83%

UAN

1. Terra 27%
2. CF 22%
3. PCS 14%
4. Koch 12%

75%

Phosphates

1. Mosaic 50%
2. PCS 21%

71%

Potash

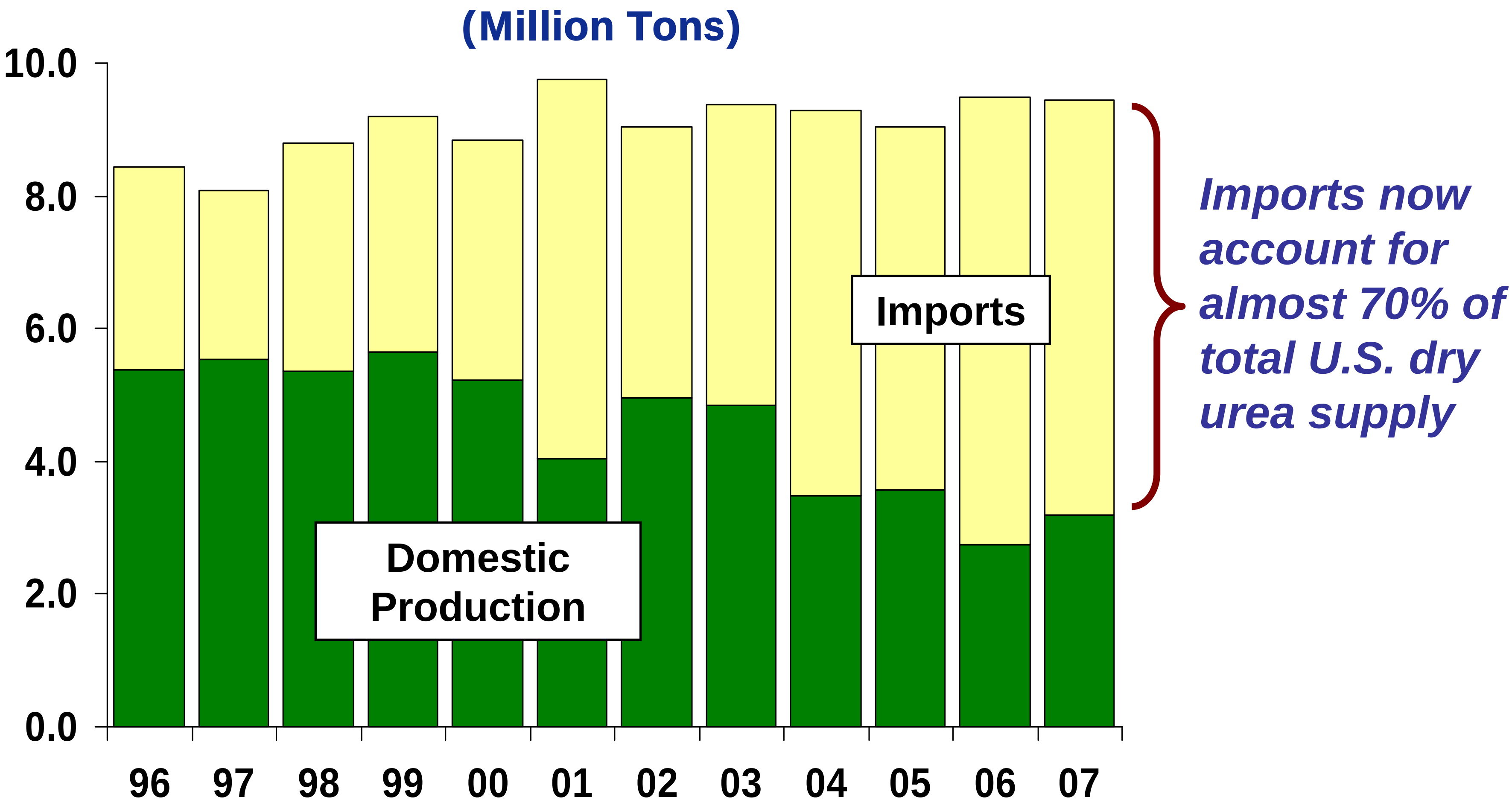
1. PCS 48%
2. Mosaic 39%

87%

Abu Qir
Achema
Acron
Agrolinz Melamin
Amonil
Asmidal
Asen Bintilu
Cherepovets
Cherkassy
Eurochem
Fertilizantes
Nitrogenados
Grodno
Novomoskovsk Azot
PIC
Profertil S.A.
Pulway
QAFCO
SABIC
Sichuan Chemical
Togliatti

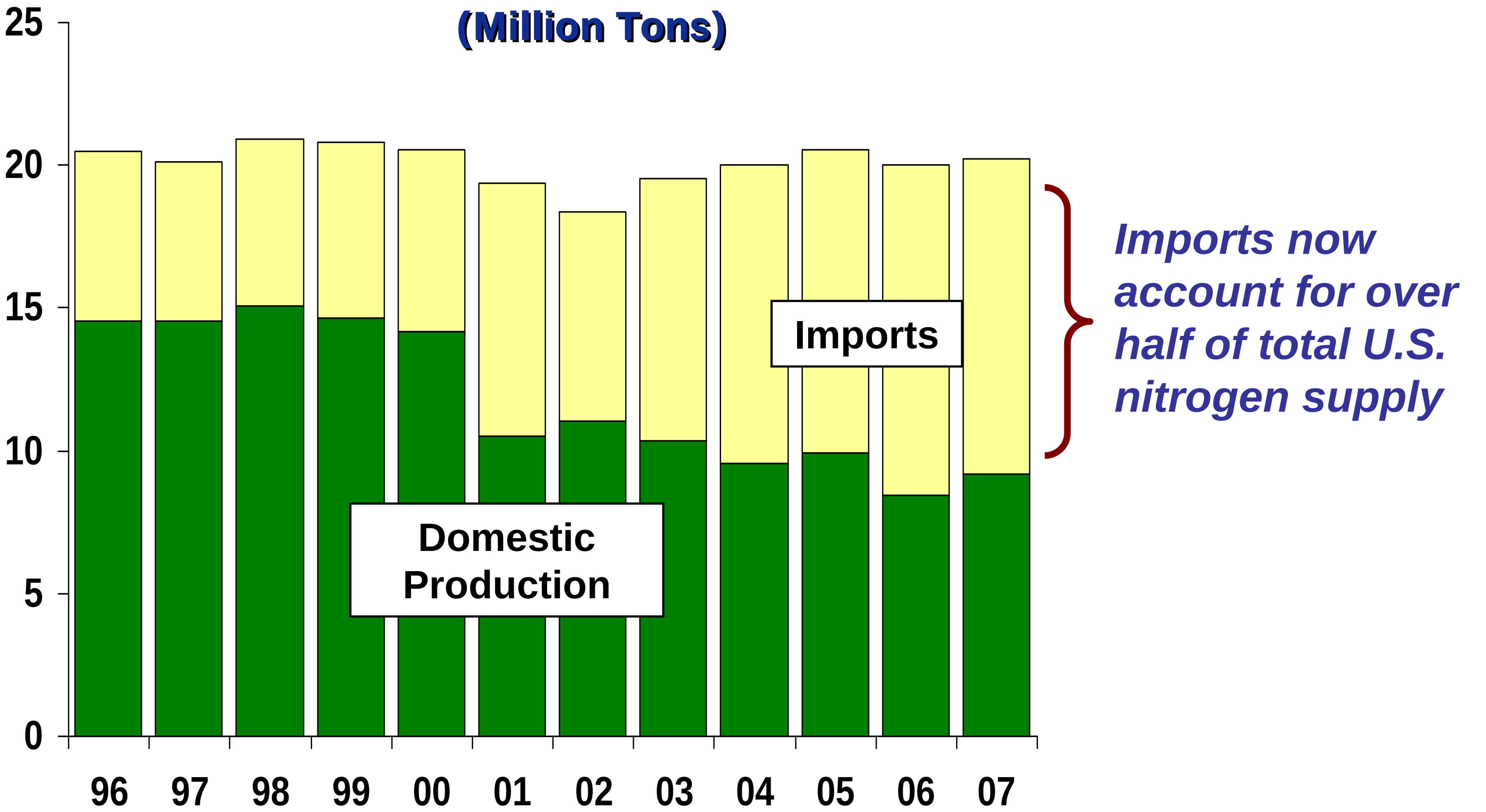
Source: TFI

U.S. Dry Urea Supply



Source: USDOC

U.S. Nitrogen Supply

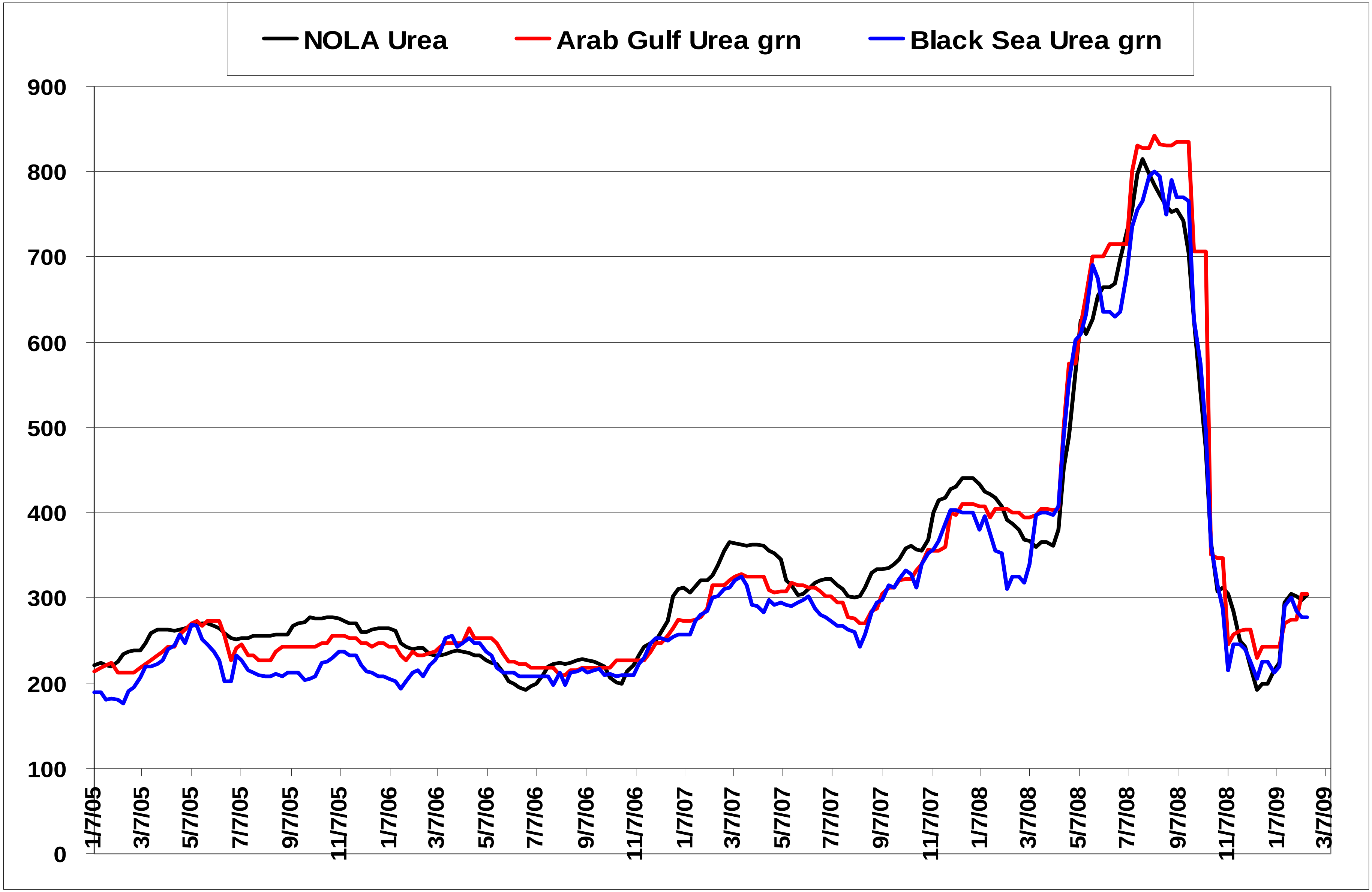


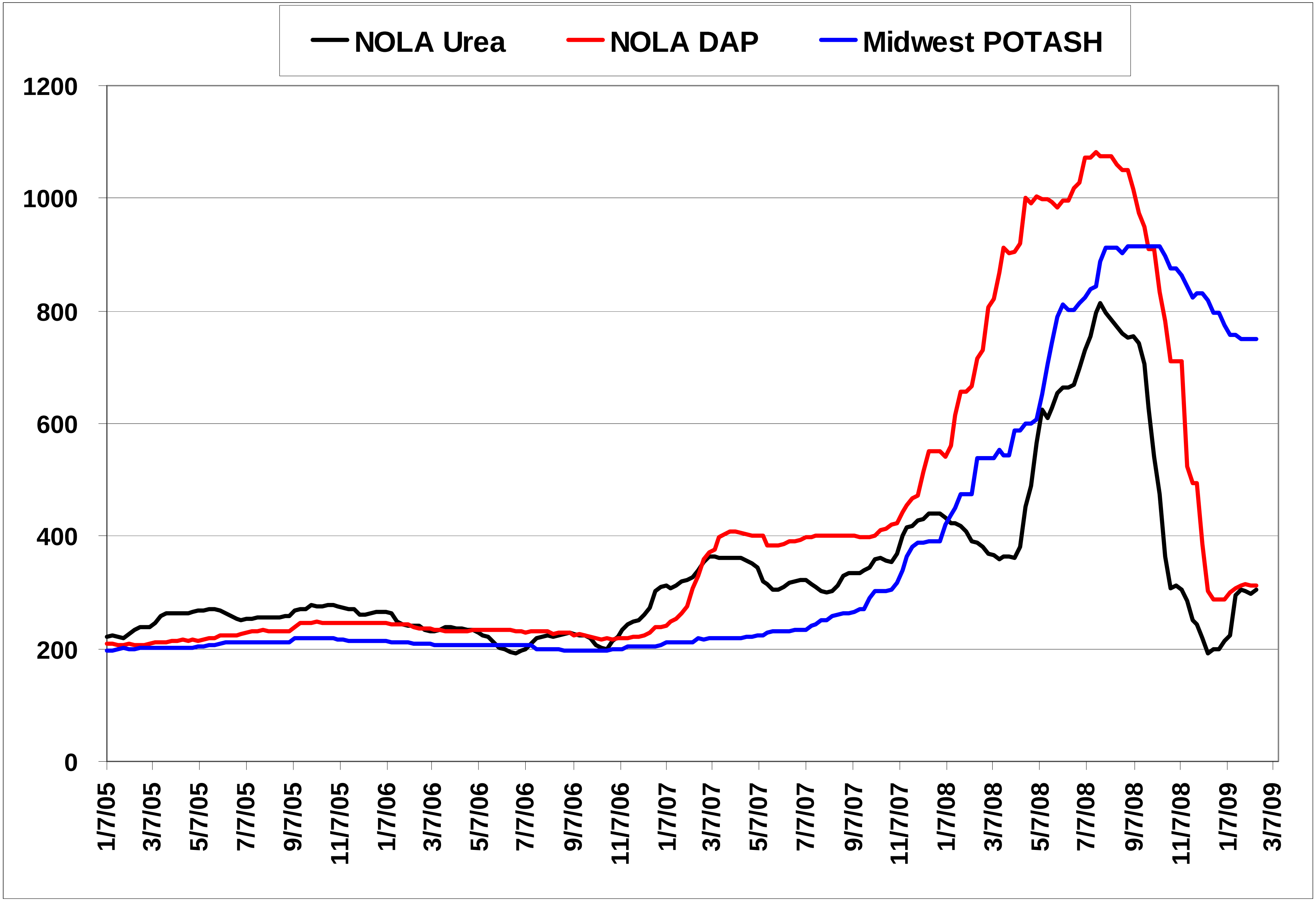
Source: USDOC

Corn

DEPLETED U.S. CN INDUSTRY WAS NOT PREPARED TO SATISFY FUTURE DEMAND SURGE
750'0
700'0
650'0
600'0
550'0
500'0
450'0
400'0
382'6
350'0
300'0
250'0
200'0
DTN ProphetX
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
1 Mon

Global Urea Price Correlation





NOLA Urea
NOLA DAP
Midwest POTASH
1200
1000
800
600
400
200
0
1/7/05
3/7/05
5/7/05
7/7/05
9/7/05
11/7/05
1/7/06
3/7/06
5/7/06
7/7/06
9/7/06
11/7/06
1/7/07
3/7/07
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11/7/07
1/7/08
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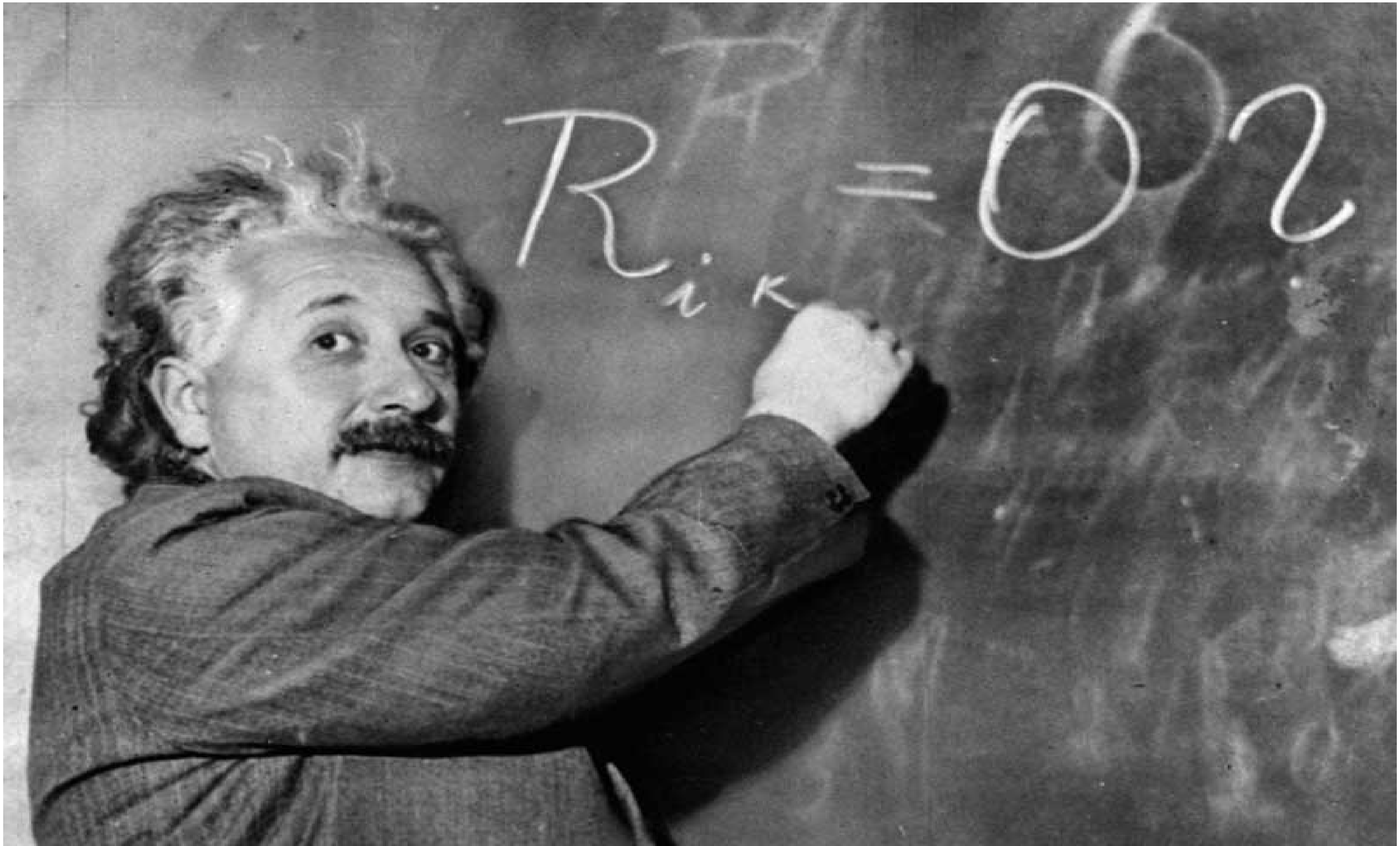
7/7/08
9/7/08
11/7/08
1/7/09
3/7/09

Current Wholesale / Retail CN Conundrum

- Retail level selling is just in time however retail buying activities are as much as 6 to 9 months ahead of time – bulk commodity logistics
- Wholesale prices collapsed after retailers accumulated inventories
- Currently, in many instances wholesale prices are below retail values

Crop Nutrients Hedging Strategies



Crop Nutrients Industry Shortcomings

- Fertilizer industry not experienced in commodity merchandising techniques
  - Crop nutrients industry participants need overnight hedging education
- Sophisticated CN hedging strategies are needed given the lack of a viable traditional derivative market
- Marketplace volatility calling for hedging skills
- Industry transparency lacking without a traditional price discovery mechanism

Crop Nutrients Risk Spectrum

Hedging As Risk Management

Develop Crop Nutrients Risk Management Policy

Develop Daily Position Report (DPR)

Assess Crop Nutrients Risk

The next step in risk management is an on-going assessment of what current market place risks are (risk profile) broken down by:

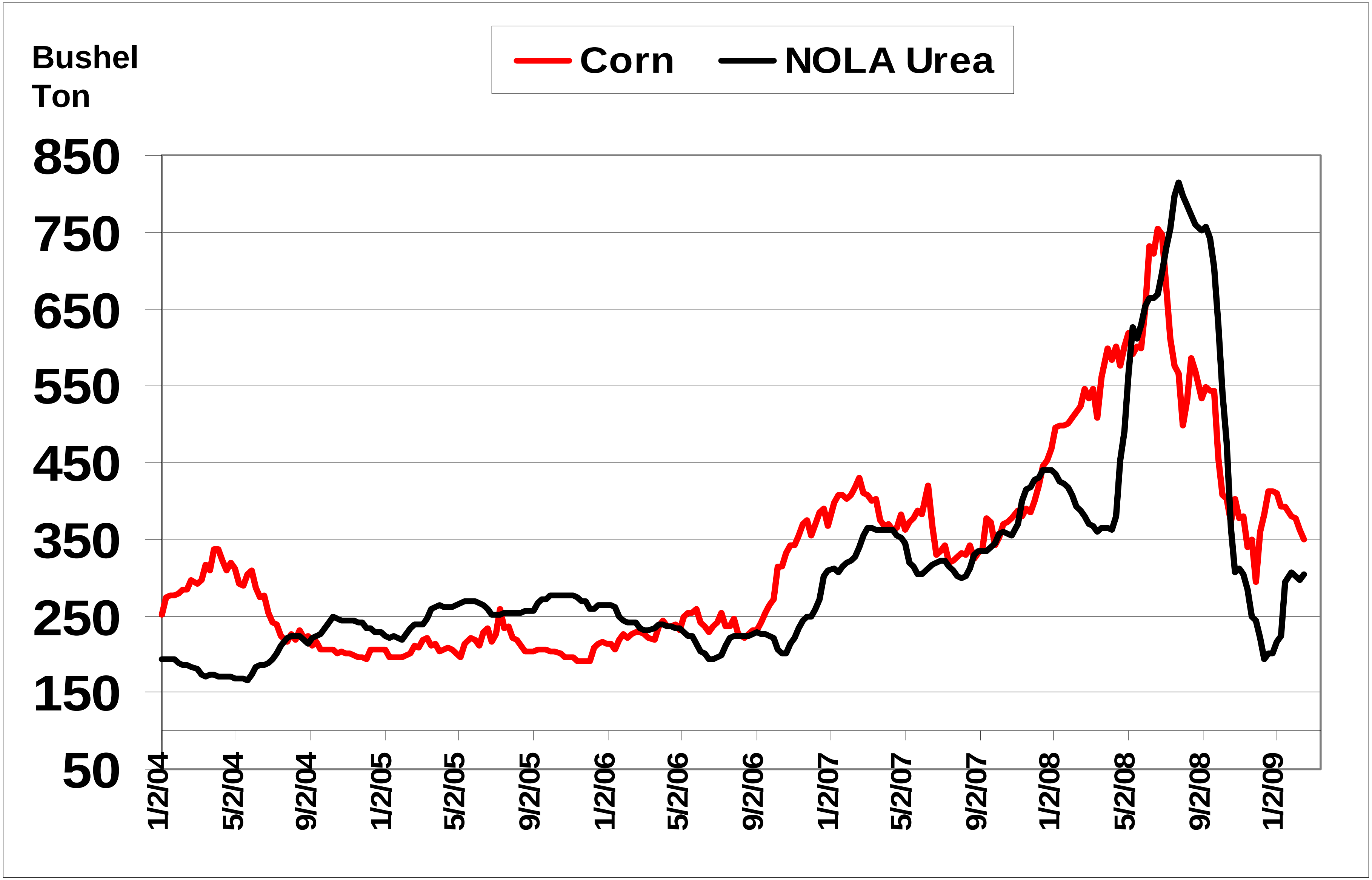
- Price risk
- Supply risk
- Demand risk

Crop Nutrients Hedging Strategies

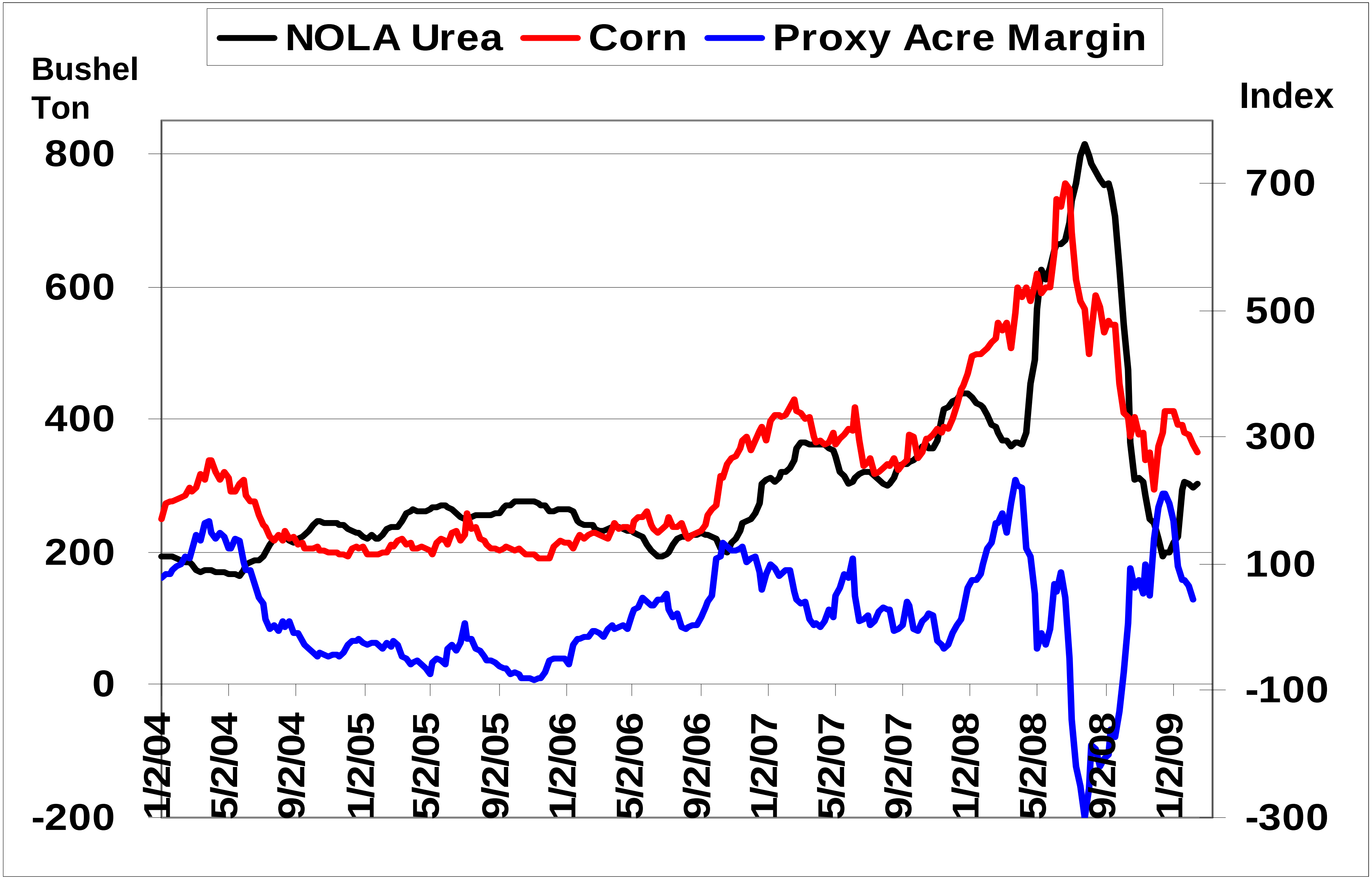
Where/ when possible:

- Establish short (long) OTC swap position
- Establish short (long) cash forward position
  - Work with farmer in deferred “acre margin” lock
- Source “un-priced” product for owned warehouse space

Corn / NOLA Urea



Proxy Acre Margin



Thank you

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