MONSANTO CHEMICAL COMPANY
GENERAL OFFICES
SAINT LOUIS

CABLE ADDRESS
MONSANTO-ST. LOUIS

March 6, 1936.

TO THE STOCKHOLDERS OF THE
MONSANTO CHEMICAL COMPANY:

Our by-laws provide that our Board of Directors may authorize the payment of additional compensation or bonus to officers as an incentive to greater efficiency, provided such additional compensation be reasonable, be based on results accomplished, and take into consideration the investment in plant and working capital and other matters reasonably necessary to make such plan fair and equitable to all concerned.

On pages 20 and 21 of the enclosed thirty-fourth annual report to the stockholders of Monsanto Chemical Company are comparative balance sheets and income accounts for the years 1926 to 1935, inclusive. These tables depict the rapid growth of the Company which was achieved both by an expansion of its own facilities and by absorption of other chemical manufacturing units. As stated in the report, the 1935 net earnings of every major division or subsidiary of the Company were greater than it realized in 1929.

In a large measure this result is due to the relatively fortunate position of our industry in serving the so-called consumers' goods industries who have recovered to a greater degree than industry as a whole, and who are constantly making increasing use of chemical products. It is also the result of hard work by many capable men. Without minimizing the important contribution of this large group of the Company's employes, their efforts were directed by a comparatively small number of executives, who have achieved their key positions by superior ability and experience.

Since 1928, executives and key-men have participated in an incentive plan which was described in my report to stockholders for the year 1932 as follows:

"INCENTIVES

"It is generally conceded that humanity exerts its utmost when in competition, that man's best efforts are forthcoming when a stimulating reward is attainable. Thus, incentives, which give prompt recognition to accomplishment above the usual expectancy, have been in rather general and successful use in Industry.

"The very favorable results accompanying the introduction of incentives into some of our operations several years ago prompted the progressive and general extension of the principle into all our activities. The scope of employes working under incentives now includes practically every individual whose efforts contribute to the Company's profits and whose efforts we have so far been able to measure adequately.

"Our salesmen are rewarded in addition to their salary, based on their ability to reach or exceed sales quotas assigned to them. Operating chemists and foremen receive bonuses varying in the degree that the controllable elements going into costs of production, under their supervision, are brought below standards that are re-established periodically. The work of packers, warehousemen, power plant engineers, and others is compared with carefully determined standards, and bonuses are paid as they are exceeded.

"Monsanto's executive and key-men salaries are modest. In compensation the executives and key-men directing the operations of each division or subsidiary also receive 10% of the net profits realized by their division in excess of that which may be considered average performance. The latter is measured by a varying minimum return on the invested capital under their direction. The minimum return required before this additional compensation is payable varies with general business activity as indicated by the chart published monthly by the Guaranty Trust Company of New York. Under conditions indicated by this chart as 97½ to 102½% of normal, a 7% return is required before a bonus on the excess is earned. This minimum return increases by degrees to 10% when business activity as in 1929 reaches 115% of normal, and decreases to 4% under conditions such as have existed since November, 1930. Twenty-one individuals participate in this plan. The cash in excess of normal requirements of each division and marketable securities are carried in a central account and not considered as invested capital, nor are the earnings of this fund considered as profits.

"To maintain their effectiveness our incentive plans are subject to a natural evolution as conditions change. Their terms, however, will never be a burden to our stockholders. They are and shall always be solely a stimulus to better effort and I am confident they redound to the considerable benefit of our stockholders."

The operation of this executive bonus plan in the parent and subsidiary companies has resulted as follows:

Year	Net Earnings Applicable to Extra Compensation Before its Deduction, but After all Other Charges	Extra Compensation	Percent of Net Earnings	Percent of Net Worth	Number of Participants in Plan
1935	$4,070,115.91	$323,342.58	7.94%	1.36%	49
1934	2,940,976.04	228,571.98	7.77%	1.30%	33
1933	2,382,967.53	161,760.54	6.79%	1.15%	22
1932	1,024,712.68	12,014.18	1.17%	0.10%	27

In 1935 no individual received as much as 11% of the total.

Our Board of Directors believes this plan stimulates the best efforts of the key-men, automatically rewards them for profitable operation of the business, and provides an automatic curtailment of overhead expense during depressions without resorting to distasteful cutting of salaries. The Board requests that at the coming annual meeting the stockholders ratify the Executive Bonus Plan heretofore established and now in effect and that the Board be authorized from time to time to change the basis of the Plan, increasing or decreasing the bonus, or to abrogate the same, if and when the Board deems it advisable to do so.

Heretofore the President has participated in the bonus. It seems desirable that in the future he should not do so. His salary should be fixed annually by the Board. This leaves him disinterested and free to recommend changes in the Plan from time to time as conditions may dictate.

The enclosed proxy is being solicited on behalf of the Management and will be used to re-elect the present directors of the Company and to approve the executive bonus plan that has been in effect and its continuance, subject to such modifications as might be determined by the Board of Directors from time to time.

We will appreciate your execution and return of the enclosed proxy.

Edgar M. Queeny

President.

On the reverse is a notice of our annual meeting of stockholders, to be held on Tuesday, March 24, 1936.