PLAINTIFF'S EXHIBIT

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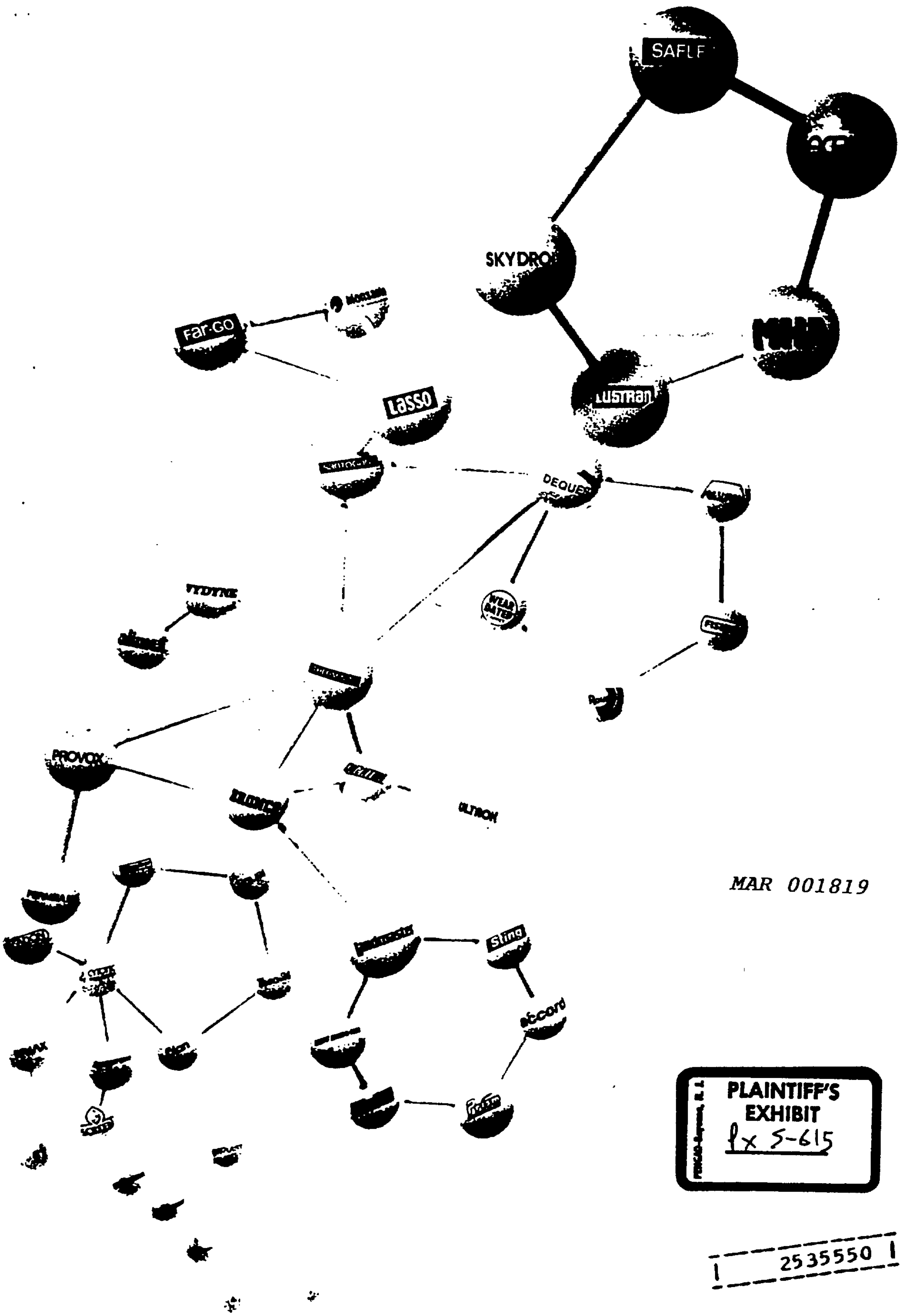
MONSANTO COMPANY 1986 ANNUAL REPORT **PERFORMANCE.**



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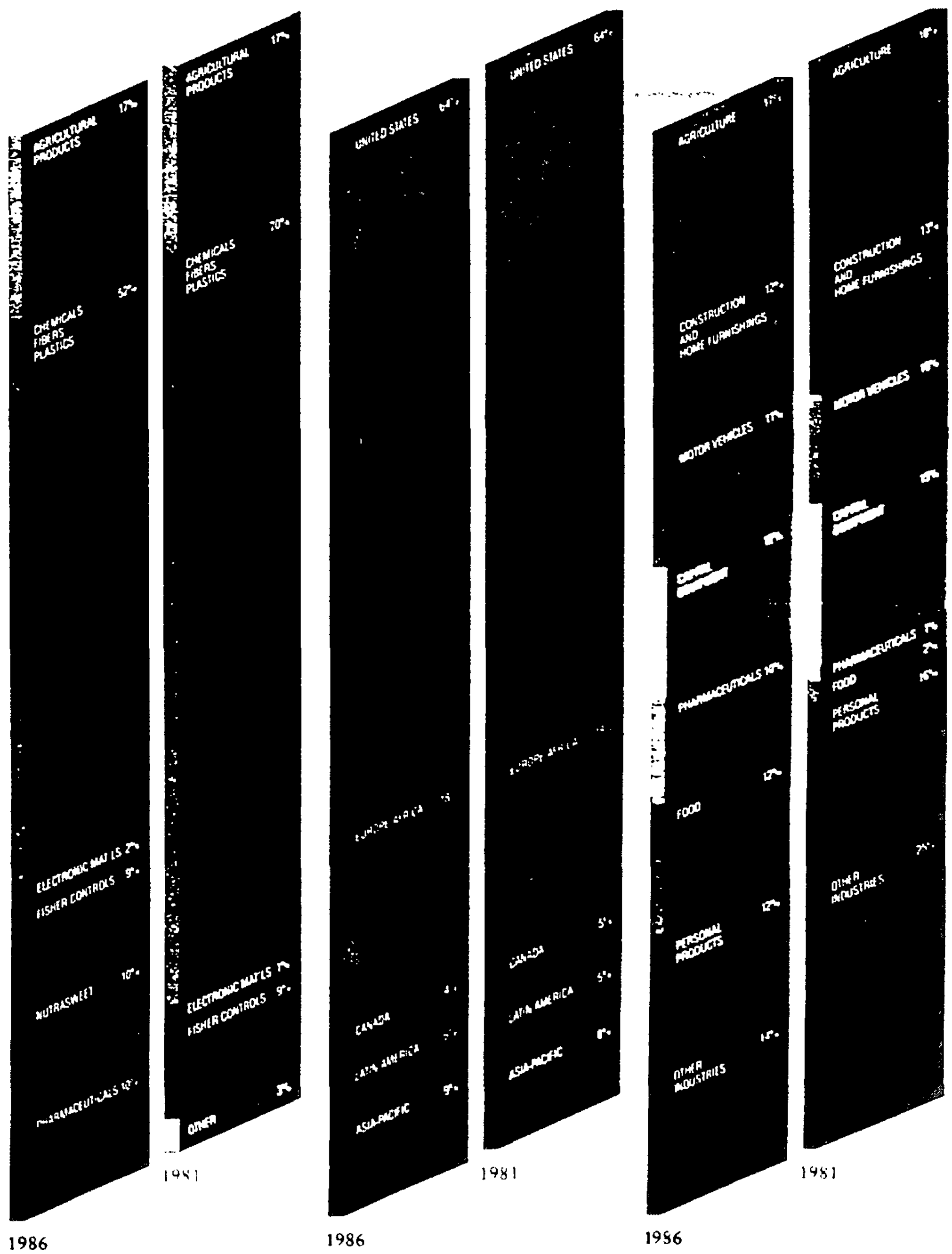
MONSANTO'S BUSINESS MIX HAS CHANGED OVER THE PAST FIVE YEARS

Operating Units
In chemicals, fibers and plastics, we have shifted away from commodities to value-added products. We have also added important new businesses.

World Areas
Our commitment to doing business worldwide remains strong.

Major Markets
Our markets continue to be diversified.

SALES MIX IN PERCENT



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MONSANTO AT A GLANCE

Monsanto Company delivers value to customers and society by providing high-quality chemical and agricultural products, pharmaceuticals, low-calorie sweeteners, industrial process controls, man-made fibers, plastics and electronic materials. Building on our historic strengths in technology, we are aggressively developing new products to meet customer needs. At the same time, our 52,000 employees are committed to the highest standards of conduct in the more than 100 countries where we do business.

OPERATIONAL HIGHLIGHTS

Monsanto Company and Subsidiaries

(Dollars in millions, except per share)	1986	1985	1984
Net Sales	$6,879	$6,747	$6,691
Net Income (Loss)	$ 433	$ (98)	$ 439
Per Common Share:			
Net Income (Loss)	$ 5.55	$ (1.27)	$ 5.42
Dividends	2.575	2.45	2.25
Shareowners' Equity	48.69	44.38	46.43
Depreciation and Amortization	$ 780	$ 599	$ 503
Funds Provided by Operations	$1,050	$ 889	$1,008
Research and Development Expenses	$ 523	$ 470	$ 370
Percent of Total Debt to Total Capitalization	35%	45%	23%

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Contents

Cover

Monsanto's ability to manipulate molecules is a unifying theme in its many products that benefit mankind. The cover shows a blend of old and new products, with many yet to emerge. Products on the cover are represented by trademarks and grade designations of Monsanto Company and its subsidiaries. Elsewhere in the Annual Report, Monsanto's trademarks are identified by italics.

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Richard J. Mahoney

Chairman and
Chief Executive Officer

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In last year's shareowners letter, we described the year just ended as "The pivotal year in recent Company history. The decisions taken . . . will influence the Company's fortunes for years to come."

Nineteen eighty-six was the first "year to come." It was a glimpse at the potential of Monsanto. The many positive results reconfirmed the importance of the actions taken earlier. The parts that we didn't like about 1986 illustrate that the transformation is not yet complete.

In 1985, we moved out of essentially the last major segments of our underperforming commodity chemical assets. We promised in doing so that the new Monsanto product mix would be more dependent on *our* actions and less on the whims of external forces. The result: some of each.

Our actions in the Chemical Company unit — our largest — produced far lower overhead and added higher customer value to purchased raw materials — a combination that resulted in an outstanding year which was rewarded by the marketplace. All of our major chemical businesses produced higher profits, especially fibers. Several new products were launched as we continued to regenerate our product lines and grow selectively into new areas in chemicals, fibers and plastics. The external forces of a weaker dollar and lower oil prices were also positive and added to our own actions.

In last year's report, we said we'd intensified our efforts to move *Roundup* herbicide into new uses. In 1986, sales volumes of *Roundup* herbicide were up significantly — by far the largest growth year in the '80s. The whims of weather helped, but much of the gain was from strategy — new mixes and new positioning. The Agricultural Company increased earnings and still funded important new growth programs in crop chemicals and animal sciences. The exciting biotechnology program for increased milk productivity is on schedule, including a production facility under way.

G.D. Searle & Co. remains as we said last year: "*Current earnings are nonexistent — but the rewards look very promising indeed.*" A quick look at the financials on page 21 will certainly confirm the nonexistence of earnings. But the *promise* was enhanced by important developments: *Cytotec* prostaglandin — Searle's first major new pharmaceutical product in over a decade — has received clearance for sale in 24 countries. Approval is now pending in 30 others, including the United States. A second-generation tPA (tissue plasminogen activator) product is being developed to prevent and treat blood clots associated with heart attacks. This new product is based on Monsanto molecular biology coupled with research sponsored at Oxford and Washington universities. Added to this collaboration is unique Monsanto production technology to make large volumes of proteins by cell culture techniques. Other internally generated programs are moving along, but at the same time, we are strongly seeking external opportunities in the acquisition of product licenses or facilitating acquisitions. One licensed product, *Calan* verapamil HCl, was recently approved in the United States for a new use in controlling high blood pressure. It achieved good market acceptance upon launch and is off to a fast start.

The NutraSweet Company continues to fulfill its promise — a superb and growing income source. The development of a strategy for maintaining this important franchise after the U.S. patent expires in 1992 is well under way. Last year we said to watch the "earnings power and durability" of our low-calorie sweetener. Events in the marketplace and in NutraSweet's plants and laboratories in 1986 justify that statement. Despite a slowdown at year-end, largely attributable to customer inventory reduction, it was a good year and a solid base for further gains in 1987 and beyond.

At the outset of this letter, perhaps euphemistically, we mentioned that some events illustrate that Monsanto's transformation is not yet complete. In silicon, we're ready, but the customers showed up only sporadically in the United States — our biggest market — which did not recover as we had hoped. Capacity utilization moved up from its 1985 low, but still not enough to put us in the black. While this asset after write-down in 1986 is just 3 percent of the total asset base of the Corporation, it is highly visible. In the 1985 Annual Report, we said we wouldn't make any more rosy forecasts — but let events speak for themselves. Silicon prospects still depend on a cyclical upturn in semiconductors that is not yet apparent.

Fisher Controls International, Inc., concluded

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a poor year financially in 1986 with the sudden downturn in capital spending by oil, gas and chemical companies — nearly half of its current markets. In the business that *was* available, Fisher improved market share, particularly in *PRōVOX* control systems, installation and services. During the year, we took a number of actions that depressed Fisher's 1986 earnings but will improve future operating costs.

The result of Monsanto's successful strategy execution and favorable external events — the oil price reduction and $85 million from one-time net gains — brought net earnings to $433 million. This helped us deliver on last year's promise of impressive ability to generate cash. Monsanto retired $800 million of debt — bringing debt to total capitalization to 35 percent from the Searle acquisition high of 52 percent in 1985.

In this letter, we have focused our comments on the progress in 1986 on the promises made in 1985. We made another important statement in last year's report that will remain relevant for the years to come — and for purposes of emphasis, we repeat it here.

To your management, the job is very clear. We have invested substantial assets towards the future, and we must make the future happen as quickly as possible.

We know our stakeholders have both short-term and longer-term interests in the Company. Our intention to serve them is simple in concept. We intend to place Monsanto among the handful of great industrial enterprises in the world — the best in what we choose to do — measured by consistent returns for our many stakeholders.

It requires no new strategy. Those decisions are behind us. It does require these actions:

For the shareowner-stakeholders, this promise means aiming for a return on equity year after year in the 20 percent range. Our restructured product mix can get us there in the 1990s — we have a good balance now, and we intend to reach for this target.

For our customer-stakeholders, we must work every day to meet the highest standards of value, quality and service in the products we sell. Their rewards will be measured in how well we meet their needs.

For our employee-stakeholders, we must provide safe, meaningful and rewarding work in an environment in which each person has an equal opportunity to succeed. We want to ensure that Monsanto is a great place for our people to invest in their careers.

For our neighbor-stakeholders, we must strive for a lasting and rewarding partnership which respects their needs. We want our communities to benefit from the contributions of a desirable neighbor.

The job of the Board of Directors and your management is to serve each of these groups.

We're delivering. I've covered in the letter the returns we produced for today's shareowners. For tomorrow's shareowners, we're investing in market growth, inventing and licensing new products, developing new partnerships, making acquisitions, strengthening good assets and trimming those that don't meet expectations.

We're more responsive to our customers by mobilizing all parts of Monsanto to meet their needs and add value to what we sell. Our progress toward the total customer and market orientation we seek is still incomplete, but we're going in the right direction.

We have entered into a closer partnership with our plant communities, opening our doors to what we are doing and working jointly to ensure the safety of our neighbors. This year, we made strides in cleaning up the industrial wastes we disposed of based on the standards of yesterday, while investing in new technology to make our plants cleaner and safer for the future.

Monsanto's 86-year record of doing what's right for employees, within the overall need to prosper as a corporation, serves us well in a world where sustained change is the only certainty. We intend to provide challenge and opportunity with commensurate rewards. We seek innovation and dedication to achieving the great industrial enterprise status we have targeted. All of us will share the pride that stems from that accomplishment.

We have a clear view of the company we intend to be. The initiatives we must take to get there and examples of the good progress we have made so far are described in the following pages of this report. As we move forward, the rewards are coming for all our stakeholders.

Richard J. Mahoney
Chairman and
Chief Executive Officer

March 4, 1987

Monsanto is determined to be one of the world's truly great industrial enterprises, a company that delivers meaningful benefits to shareowners, customers, employees and neighbors. Essential to achieving this objective are consistent results from important performance initiatives set by management.

In 1986, the Company made solid progress against those initiatives. Although results are not yet flowing from every corner of the Company, we are generally on track for the targets we have set. And we have the products, the people and the technology to accelerate our momentum.

The following pages describe these initiatives and highlight Monsanto's progress against each. The review of results for Monsanto and its six operating units appears on pages 19 to 24.

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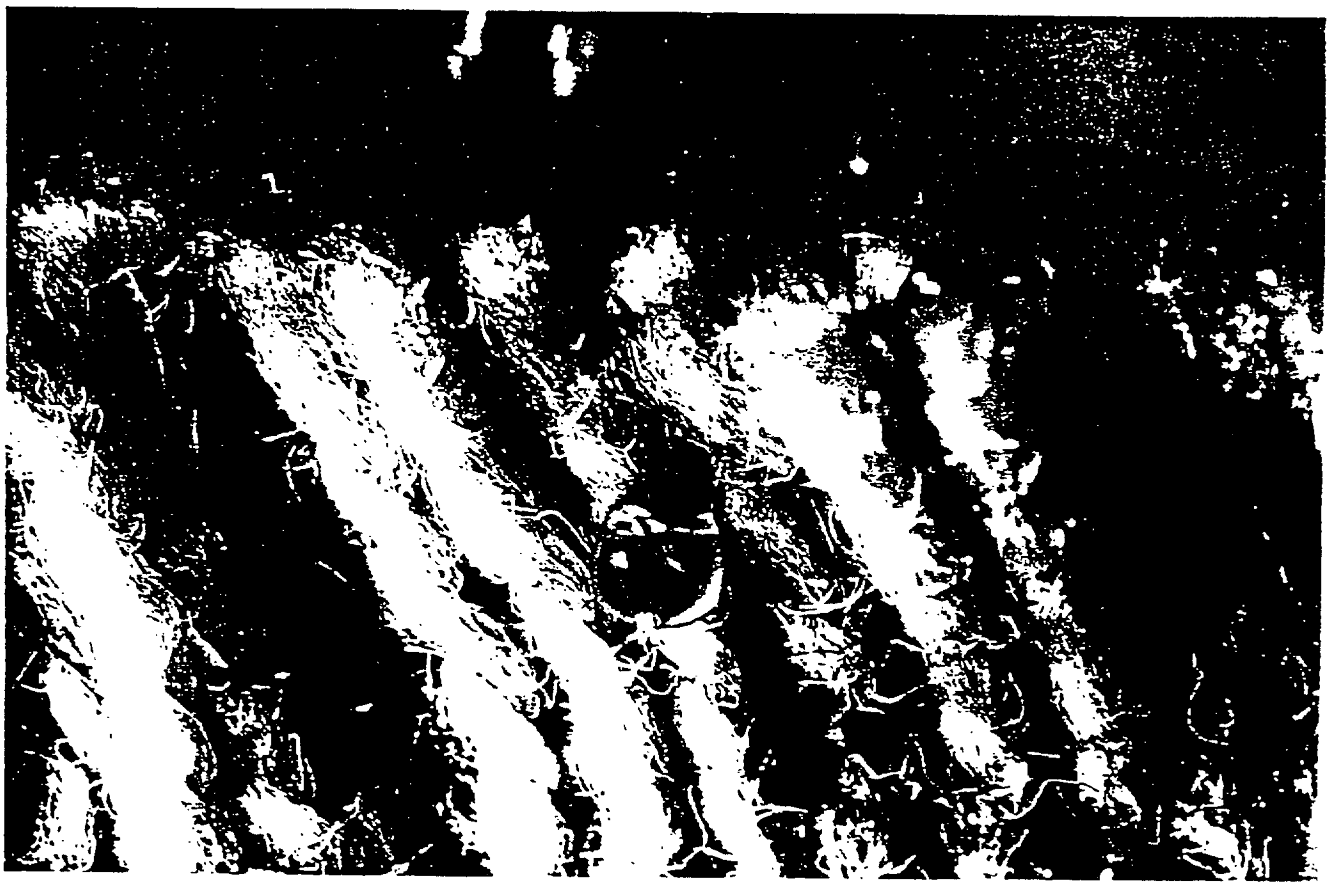

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WE MUST CONTINUE TO BALANCE LONG-TERM GOALS WITH SHORT-TERM RESULTS.

Top photo: Most food and beverage spills in the home are driven into the carpet by the force of the spill. New Wear-Dated Gold Label carpet makes cleanup easier, particularly for the more difficult to remove stains.

Bottom photo: The NutraSweet plant in Augusta, Georgia, began installing important new technology to strengthen the company's cost leadership in aspartame manufacturing.

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Monsanto is determined to be a leader in its chosen markets for the 1990s, but we must deliver results in the short-term as well as generate the resources needed for the coming decade. We will achieve this goal by aggressively managing good businesses, by inventing and licensing new products that meet customers' needs, and by moving out of businesses that prove unable to meet targets. The recent streamlining of Monsanto allows our managers to focus on doing just these things.

In addition, Monsanto is entering into new markets and expanding in existing ones by seeking partnerships with other enterprises. These complement our strong and growing partnerships with customers and research universities.

■ Near-term results are already evident. Monsanto's Chemical Company unit, which by itself would rank among the nation's 125 largest firms, doubled operating income to $464 million in 1986 — even after excluding one-time gains of nearly $150 million.

■ The popularity of *NutraSweet* brand sweetener gives The NutraSweet Company excellent momentum as new applications for the product are introduced. It is committed to leadership in quality, cost and technology. For example, production equipment at its Augusta, Georgia plant, although only two years old, is being replaced by important new technology to lower costs and keep its lead as the world's most efficient producer of aspartame.

■ In many Monsanto businesses, long-standing products have been bolstered to expand and protect their positions. *Roundup* herbicide continues on the growth track with new mixtures and product positioning. *Lasso* herbicide has held its position as the United States' leading corn and soybean herbicide. Recent tests show it outperforms the competition in delivering higher crop yields — and the marketplace responded to that. A 200-gallon reusable tank system was introduced as part of an aggressive marketing effort to help farmers save time and simplify handling. *Lasso Micro-tech*, developed in response to farmers' needs, controls weeds when used in conservation tillage for soybeans.

■ Searle is developing new applications and dosage forms to strengthen the market positions of its $665 million in existing product sales and is introducing new products, such as *Cytotec* for treating ulcers.

■ In the Monsanto Electronic Materials Company and Fisher Controls, we aggressively cut costs, got out of low-return product lines, and took other actions that will improve near-term returns.

■ For the longer term, Monsanto continues to take actions that will improve future earnings. In 1986, the Chemical Company unit alone invested nearly $350 million in research programs and manufacturing facilities around the world. In so doing, it is developing new products to strengthen its long-term future in key markets, such as home furnishings, automotive, laundry detergents, consumer appliances and construction. The stain resistance of *Wear-Dated* Gold Label carpet fiber, introduced in 1986, is a textbook example of successfully responding to what customers said they need.

■ Searle has increased its research and development to a level that ranks it among the world's leading pharmaceutical companies —an example of Monsanto's commitment to a steady stream of profitable life sciences products.

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WE MUST ADD GREATER VALUE TO ALL THE PRODUCTS MONSANTO PRODUCES.

Top photo: Marketing strategy is discussed for the many brands of glyphosate, the principal ingredient in Roundup, *to extend the reach of the world's most successful herbicide into more than 100 countries.*

Bottom photo: Saflex *interlayer is increasingly used in architectural glass for safety, insulation and noise control, as in this new terminal at Heathrow, London, the world's largest airport.*

The value we add to our products — over and above the purchased raw materials — has moved up substantially in the last five years and now accounts for two thirds of Monsanto's sales dollar. This resulted from our drive to increase the quality and performance of our products. The value-added approach also helps us strengthen our position in international markets, where lower-value commodity producers face fierce competition.

■ We have largely completed our move out of cyclical commodity petrochemicals to a product mix driven by our technology, our commitment to customer service and our management ability. Whereas cyclical businesses were about two-thirds of sales, they are now about half. This change means we are less at the mercy of external events and more in control of our results.

■ Monsanto Chemical Company (MCC) has undergone the most striking transformation. Adding value to such products as *Lustran* ABS plastics, *Acrilan* fibers and *Saflex* plastic interlayer has resulted in many new products that are helping drive MCC's evolution to a less cyclical, more profitable specialty producer.

Saflex is the world's leading plastic interlayer for the laminated glass used in automobile windows and architectural applications. Building on that leadership, Monsanto has achieved three major technological advances in *Saflex* manufacturing and is now incorporating them in its operations in the United States, Japan and Belgium.

■ New applications and new market niches enhance the value of our successful businesses. For example, Monsanto Agricultural Company has developed *Roundup* L&G, a new lawn and garden formulation. It is specially designed for homeowners and sold through lawn and garden retailers and mass-merchandising outlets. Monsanto herbicides are now sold in over 100 countries for a wide range of agricultural, industrial and other uses.

■ Monsanto employees are the most important contributors to the value we deliver. For example, MCC people have enthusiastically embraced a Total Quality Improvement process — doing things right the first time, whether making products or providing services. The results have won awards and praise from customers.

■ In late 1986, the U.S. Food and Drug Administration (FDA) approved *NutraSweet* brand sweetener for use in refrigerated fruit juices and other food categories. These were the FDA's most important new-use approvals for the product since 1983 and will provide consumers with additional food and beverage choices. It is already used in over 160 products in the United States and is approved for use in products in more than 50 other countries.

■ *PRōVOX* process controls add value to Fisher customers' plants by making their operations more efficient. In 1986, Permea, Inc., a Fisher subsidiary, introduced a new *Prism* Alpha unit that separates nitrogen from ordinary air. The nitrogen can be used to blanket perishable foods and grain to reduce spoilage and eliminate pests. This product moved from concept to commercialization in just seven months.

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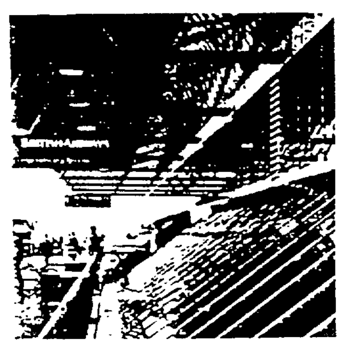

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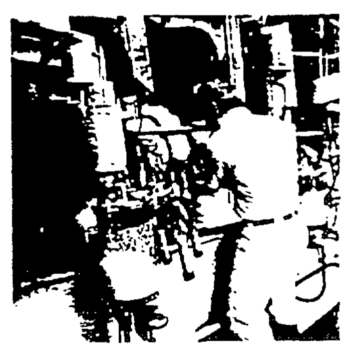

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WE ARE DETERMINED TO BE A LEADER IN DEVELOPING AND MARKETING LIFE SCIENCES PRODUCTS FOR HEALTH CARE AND AGRICULTURE.

The life sciences offer growth outside the traditional chemical industry, but in areas clearly related to our technological strengths. Capitalizing on the synergy of combining Monsanto's health care efforts with Searle's, we are embarked on building Searle into one of the world's leading pharmaceutical companies. In agriculture, Monsanto's profitable products are increasingly addressing farmers' needs for the high yields and efficiency that will help them stay competitive. For both efforts, developments in biotechnology are leading to new products with tremendous potential.

■ Monsanto's herbicides have long been leaders in their markets. We are also helping farmers stabilize costs and improve yields with livestock feed supplements, such as the popular *Alimet*, used in the poultry industry, and high-performance seed products. Over the longer term, Monsanto's biotechnology efforts will play a key role in the development of new products for those markets.

■ In fact, biotechnology will transform Monsanto's entire effort in the life sciences. One of the Company's first commercial products will be bovine somatotropin (BST), a protein that increases the efficiency of dairy cow milk production. BST is the kind of innovative product that can improve the profitability of dairy farmers, both large and small. Regulatory review for BST commercialization is progressing in several countries.

■ Though still in research, genetically engineered plants have been developed that are resistant to viruses that cause millions of dollars of damage each year to food crops. Plant genetic engineering is only four years old, and already its commercial applications are becoming clear.

■ *Cytotec*, an antiulcer drug from Searle, is fast gaining momentum in the $2.6 billion worldwide market for such products. Approved most recently in Argentina, it now is sold in 24 countries with approval pending in 30 others, including the United States. Searle's research has produced more products that have entered clinical trials, such as enisoprost, an antiulcer drug expected to be more potent than anything now on the market.

■ *Calan* SR (verapamil HCl), a Searle product already used for the treatment of angina, is now the first calcium-blocker drug approved in the United States for use in controlling high blood pressure. *Calan* corrects a cellular defect now thought to be an important factor in causing hypertension and it has far fewer side effects than traditional treatments.

■ Searle is licensing other companies' technology to supplement its product line. During 1986, it began one of the most extensive licensing program in the pharmaceutical industry and is reviewing more than 100 potential new products. As an outgrowth of these efforts, Searle has entered a cooperative venture for the development of new drug-delivery technologies.

■ Searle is developing a second-generation tissue plasminogen activator (tPA) product, which dissolves blood clots in coronary arteries. TPA has been labeled a very important development by industry observers. Searle is also developing an atrial peptide product that could provide a significant new way of using a natural body substance to control high blood pressure.

■ Successful commercialization of biotechnology takes more than good research. It takes effective government review to ensure the safety of products as well as public understanding of the benefits they will bring. Monsanto actively supports both. For example, we have an active education program to reinforce acceptance of our agriculture and animal health products.

Top photo: Nearly 60 million Americans have high blood pressure. Searle's new Calan SR *treats this problem and is one of a broad line of products for cardiovascular ailments.*

Bottom photo: Bovine somatotropin to improve the milk productivity of cows is being evaluated at various sites around the world, including Monsanto's Dardenne Farm in eastern Missouri.

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OUR RESEARCH MUST CONTINUALLY RENEW OUR EXISTING BUSINESSES AND PRODUCE A STREAM OF PROFITABLE PRODUCTS TO MEET CUSTOMER NEEDS.

Top photo: Searle researchers test the effects of different pharmaceutical compounds while looking for products that prevent brain damage from heart attacks, strokes and comas.

Bottom photo: Research renews long-standing product lines. Simulating a detergent manufacturing process to test techniques, formulations and raw materials helps Monsanto maintain its leadership in the detergent market.

In 1986, Monsanto crossed over from being a capital-intensive company to a research-intensive company, with R&D investment exceeding capital investment. Research spending now equals nearly 8 percent of sales, up from 3 percent five years ago. We are working to quickly convert as much of this investment as possible into profitable products — in fact, more new products are in the pipeline than ever before.

■ Matching customer needs with our technical expertise helps us select the best products for accelerated development. These criteria have helped Searle sharpen its research focus by identifying a series of priorities for rapid development, including new uses for *Cytotec*.

■ Collaborative agreements with universities are one of Monsanto's most important research resources. These arrangements join the strengths and interests of Monsanto with such institutions as Washington, Oxford and Rockefeller universities. It's an asset that few of our competitors have — and none to the extent of Monsanto.

Focusing on the life sciences and human health care, the partnership between Monsanto and Washington University in St. Louis is aimed at developing new therapies for major human diseases. During 1986, Monsanto and Washington University extended their research agreement through 1990 and more than doubled the level of funding.

■ We spent $105 million in 1986 on research for product improvements and new products to regenerate our chemicals, plastics and fibers businesses. Results are coming. For example, in 1986 there were an unprecedented number of new fiber products, including nine new sweater yarns, a second-generation *Acrilan* acrylic fiber offering 50 percent improved wear in men's socks, and the new *Wear-Dated* Gold Label carpet fiber.

■ Close collaboration with customers is an important part of the research effort. This is demonstrated by the construction of a Plastics Applications Development Center at the Indian Orchard plant in Massachusetts. The facility, to be completed in 1987, will be used for joint research with customers on resins and their applications.

■ At Monsanto Agricultural Company, research is directed toward developing new products through synthesis and screening programs. But it takes looking at about 20,000 candidates to find one herbicide that has commercial value, and then another five to seven years to develop it for sale. Biotechnology researchers are developing plants that can resist *Roundup* herbicide so that it can be used for weed control in many commercial crops.

■ Research also supports existing products, such as maleic anhydride used in fiberglass reinforced plastics, food additives, agricultural chemicals and lubricating oil. We lead the world in this technology and have entered a research project with another company to explore the next generation of manufacturing processes.

■ NutraSweet opened a new research and development facility in 1986 that will house programs in production technology, new applications for aspartame, and the development of new sweeteners and other potential new products.

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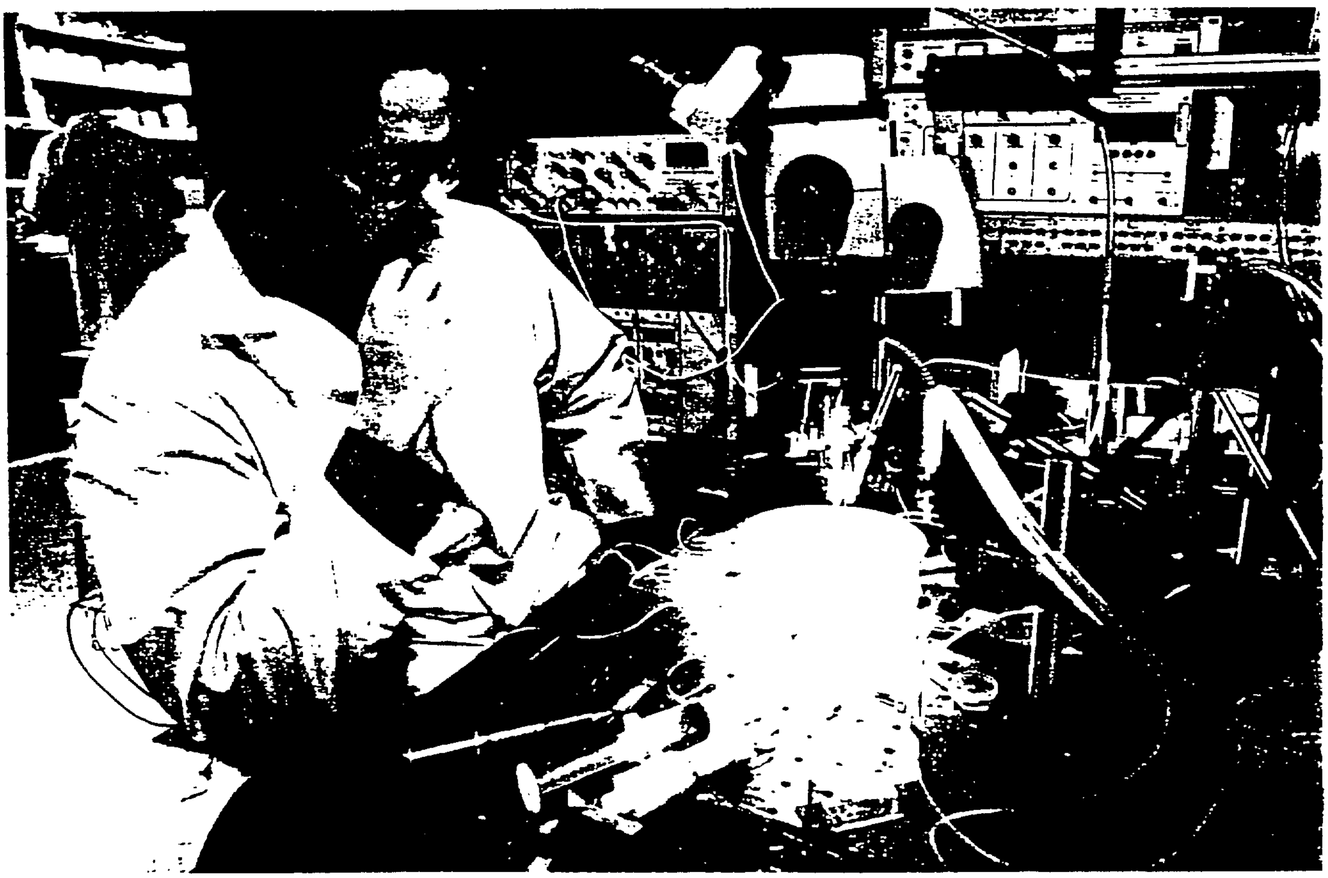

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WE RECOGNIZE OUR RESPONSIBILITY TO BE A GOOD NEIGHBOR WHEREVER WE DO BUSINESS.

Top photo: Monsanto employees volunteer their time and talents to communities of all sizes. In inner-city St. Louis, a Fisher Controls employee teaches youngsters about business.

Bottom photo: Monsanto's Newport, United Kingdom, plant helped spearhead "Selfstart in Business" to guide entrepreneurs such as Lesley Ann Tull, who started a knitwear business that now employs two full-time and 10 part-time workers.

From worldwide industry matters to community needs in our plant cities, Monsanto brings the same determined, thoughtful, action orientation it uses in its businesses. We believe in meeting our responsibilities to our neighbors — and our successful financial performance lets us deliver on those responsibilities.

■ In a special program targeted at the thousands of Americans who suffer from hypertension, angina and other heart-related ailments but cannot afford the necessary medication, Searle is distributing, free, $10 million worth of *Calan* (verapamil HCl) through physicians. Without proper medication, one-third of these people would stand a substantial chance of suffering a stroke within one year.

■ In late July 1986, a convoy of 27 Monsanto trucks drove from Greenville, South Carolina, to central Michigan to collect more than 350 tons of donated hay for delivery to drought-stricken South Carolina farmers. The 1,900-mile mercy mission was the idea of two Monsanto transportation supervisors.

■ Helping the community is part of life for many Monsanto people. Florida Plant Technician Rodney Dunn and his wife open their home to provide temporary shelter for troubled children. "It's heartbreaking to see these kids who have no chance in life," he said. "I just want to be able to say I gave a child a little shot at making it."

■ Monsanto's philanthropic fund and management talent help in other ways, too. In Newport, United Kingdom, for example, we helped develop "Selfstart in Business," a program that gives young men and women the guidance and financial support to turn good ideas into thriving small businesses. Amid widespread unemployment, entrepreneurship offers these bright, imaginative youngsters challenges — and a future.

■ Monsanto's philosophy about safety and the environment has been distilled to one sentence: We will meet every mandated standard and requirement, and go beyond them if necessary to conduct our business responsibly around the world. To make that policy a 24-hour-a-day reality, more than 1,000 people spend about $200 million a year on programs and equipment to protect employees, property, neighbors and the environment. We are cleaning up wastes resulting from the less stringent standards of past years and using new technology to minimize any waste generated in the future.

■ Early in 1986, a Monsanto task force concluded a year-long examination of Company procedures for handling high-hazard materials. As a result, storage of high-hazard materials at Company facilities was reduced about 50 percent and handling procedures for some materials were tightened.

■ Overall safety performance in 1986 again placed Monsanto among the best in our industry. By the end of 1986, at the John F. Queeny plant in St. Louis, employees had worked more than four million hours without an injury serious enough to prevent a return to work the next day. Fewer than 1 percent of all industrial facilities ever achieve that performance level, according to the National Safety Council.

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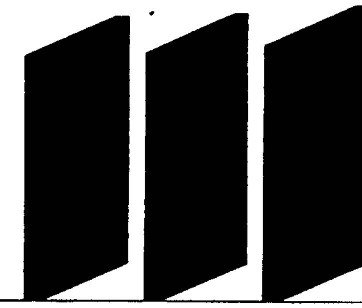
FINANCIAL REPORT CONTENTS

Unless otherwise indicated by the context, "Monsanto" means Monsanto Company and consolidated subsidiaries, and "the Company" means Monsanto Company only. All dollars are in millions, except per share data.

Net Sales



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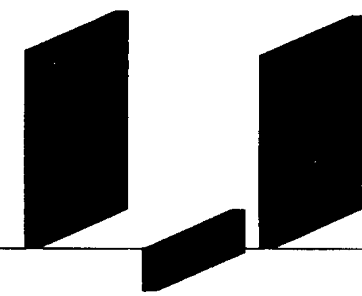
Year	1984	1985	1986
Dollars in Millions	$6,691	$6,747	$6,879

Net Income (Loss)



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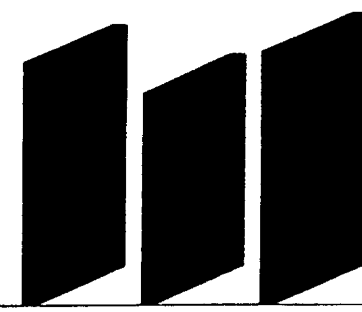
Year	1984	1985	1986
Dollars in Millions	$439	$(98)	$433

Funds Provided By Operations



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Year	1984	1985	1986
Dollars in Millions	$1,008	$889	$1,050

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MANAGEMENT REPORT

Monsanto Company management is responsible for the fair presentation and consistency of all financial data included in this Annual Report. Where necessary, the data reflect management estimates.

Management also is responsible for maintaining a system of internal accounting controls to provide reasonable assurance that assets are safeguarded against material loss from unauthorized use or disposition and that authorized transactions are properly recorded to permit the preparation of accurate financial data. Cost-benefit judgments are an important consideration in this regard. The effectiveness of internal controls is maintained by: (1) personnel selection and training; (2) division of responsibilities; (3) establishment and communication of policies; and (4) ongoing internal review programs and audits.

As ratified by shareowner vote at the 1986 Annual Meeting, Deloitte Haskins & Sells was appointed to examine, and express an opinion as to the fair presentation of, the consolidated financial statements. This opinion appears below.

Monsanto's Audit Committee, consisting of six non-employee directors, meets with Controllership, Internal Audit and Deloitte Haskins & Sells personnel to review internal controls, financial reporting and accounting practices. Deloitte Haskins & Sells and internal auditors meet with the Committee, with and without management present, to discuss their examinations, the adequacy of internal controls and the quality of financial reporting.

Richard J. Mahoney
Chairman and
Chief Executive Officer

Francis A. Stroble
Senior Vice President and
Chief Financial Officer

February 27, 1987

INDEPENDENT AUDITORS' OPINION

To the Shareowners of Monsanto Company:

We have examined the statement of consolidated financial position of Monsanto Company and Subsidiaries as of December 31, 1986 and 1985 and the related statements of consolidated income, shareowners' equity and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of Monsanto Company and Subsidiaries at December 31, 1986 and 1985, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles. These principles were consistently applied during the period except for the change, with which we concur, in 1986 in the method of determining pension expense as described in the Employee Retirement Benefits note to the financial statements.

Deloitte Haskins & Sells

Saint Louis, Missouri
February 27, 1987

STATEMENT OF CONSOLIDATED INCOME

(Dollars in millions, except per share)	1986	1985*	1984
Net Sales	$6,879	$6,747	$6,691
Cost of goods sold	4,344	4,841	4,839
Gross Profit	2,535	1,906	1,852
Marketing and administrative expenses	1,244	919	722
Technological expenses	596	548	446
Amortization of intangible assets	218	88	7
Restructuring expense (income) — net	(158)	949	
Operating Income (Loss)	635	(598)	677
Interest expense	(201)	(178)	(100)
Interest income	41	63	92
Gain from sale of oil and gas operations		392	
Other income — net	161	23	38
Income (Loss) Before Income Taxes and Extraordinary Gain	636	(298)	707
Income taxes	203	(170)	268
Income (Loss) Before Extraordinary Gain	433	(128)	439
Extraordinary gain from debt repayment		30	
Net Income (Loss)	$ 433	$ (98)	$ 439

Earnings per Share:			
Before extraordinary gain	$ 5.55	$ (1.67)	$ 5.42
Extraordinary gain		0.40	
After extraordinary gain	$ 5.55	$ (1.27)	$ 5.42

**Restructuring expense (income) — net has been reclassified. See notes to financial statements.*
The above statement should be read in conjunction with pages 33 through 38 of this report.

Key Financial Statistics

	1986	1985	1984
As a Percent of Sales:			
Gross Profit	37%	28%	28%
Marketing and Administrative Expenses	18	14	11
Research and Development Expenses	8	7	6
Operating Income (Loss)	9	(9)	10
Net Income (Loss)	6	(1)	7
Effective Income Tax Rate	32	(57)	38

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REVIEW OF CONSOLIDATED RESULTS OF OPERATIONS

1986 Was an Important Transition Year

The year 1986 represented an important transition for Monsanto Company, following the acquisition of G.D. Searle & Co. and The NutraSweet Company and several years of restructuring actions. Net income was $433 million in 1986, compared with a net loss of $98 million in 1985. The net loss in 1985 resulted from costs associated with the restructuring program. Earnings per share for 1986 were $5.55, compared with a 1985 loss of $1.27 per share.

Operating performance for 1986 was strong, with Monsanto's chemicals, plastics and fibers products, *Roundup* herbicide and *NutraSweet* low-calorie sweetener performing well and accounting for most of the improvement over 1985 operating results. Searle made progress in expanding acceptance of several drugs in international markets. The performance of Electronic Materials and Fisher Controls, however, was very disappointing.

Restructuring Actions Benefit 1986 Operating Performance

The strategies planned in recent years, and particularly the restructuring actions taken in 1985, yielded significant profit benefits in 1986. Beginning in late 1985 and continuing in 1986, Monsanto divested numerous low-return and non-strategic businesses and assets. In addition, the Company streamlined operations by reducing the number of employees and levels of management. Management continues its efforts to strike a positive balance between long-term growth and near-term enhancement of share-owner value.

Sales Increased and Mix Changed

Net sales increased to $6,879 million, compared with $6,747 million in 1985. Two factors affect this comparison. First, net sales of products that were subsequently divested as part of the restructuring program ($931 million) were included only in 1985. Second, the acquired Searle and NutraSweet businesses were included for only the last five months of 1985, versus a full twelve months of 1986. On a comparable basis, sales volume increased 3 percent. Worldwide selling prices increased 1 percent due to the translation of stronger ex-U.S. currency-denominated selling prices into U.S. dollars. Excluding the impact of ex-U.S. currency translation, worldwide selling prices decreased 2 percent.

The gross profit margin improved significantly in 1986 to 37 percent, as compared with 28 percent in 1985. The full-year effect of higher margins associated with Searle and NutraSweet products, lower raw material costs and the benefits of the 1985 restructuring program were the principal contributing factors. Partially depressing the improved gross profit margin was the $90 million obsolescence charge for the Electronic Materials property write-down. Overall, raw material costs declined approximately 8 percent.

The year-to-year increase in marketing and administrative expenses reflected the inclusion of the Searle and NutraSweet businesses for a full year, with their heavier marketing-related expenses, and the translation effect of ex-U.S. currency-denominated expenses into U.S. dollars. Excluding Searle and NutraSweet, and the impact of ex-U.S. currency translation, marketing and administrative expenses increased 5 percent.

Technological expenses in 1986 were $596 million, including $523 million of research and development expenses. Patent, engineering and commercial development expenses comprise the rest of technological expenses. The 9 percent increase in 1986 technological expenses over 1985 is due to Monsanto's continuing commitment to research and development programs and the acquired Searle and NutraSweet businesses. R&D expenses were 8 percent of sales in 1986, compared with 7 percent in 1985. Increases in the level of R&D expenses continue to be directed toward emerging technologies. Searle made progress in eliminating duplicate research efforts, thus increasing the efficiency of the Searle and Monsanto programs.

Amortization of intangible assets increased as a result of a full year's amortization of the acquired Searle and NutraSweet patents and other intangible assets.

Many Factors Led to Improved Income

Operating income in 1986 was $635 million, compared with an operating loss of $598 million in 1985. The operating loss in 1985 resulted from the net restructuring expense of $949 million. The benefits of the 1985 restructuring program, higher sales volumes of most continuing product lines, a more profitable product mix, lower raw material costs and an improved economic climate throughout the world (including a weaker U.S. dollar) all contributed to higher operating income in 1986. Included in 1986 operating income was $158 million of restructuring income ($97 million after related taxes, or $1.25 per share) and the $90 million charge for the Electronic Materials property write-down ($46 million after related taxes, or $0.59 per share).

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The 1986 restructuring income primarily resulted from the sale of certain product lines associated with the Texas City, Texas petrochemicals production facility, which was planned for divestiture under the 1985 restructuring program. Included in 1986 other income were $88 million of gains from the sales of product lines that were not part of the 1985 restructuring program, including acetic acid (which was part of the Texas City plant sale) and various small product lines, along with royalty income and currency gains. The sale of the Texas City plant and related assets resulted in a $175 million gain ($114 million after related taxes, or $1.46 per share).

Interest expense was higher in 1986 reflecting the full year's cost of a higher debt level resulting from the acquisition of Searle and NutraSweet. Interest income declined in 1986 due to lower interest rates and securities investment levels.

Net income in 1986 benefited from the adoption of the Financial Accounting Standards Board's new pension accounting rule, which reduced 1986 pension cost by $49 million ($25 million after related taxes, or $0.32 per share).

The impact of prior years' inflation is not completely reflected in companies' historical cost financial statements. The reason is that the cost of an asset today (current cost) is generally higher than its original cost (historical cost). As a result, historical cost depreciation expense included in the income statement is lower than depreciation expense using the current cost approach. For Monsanto, current cost depreciation expense in 1986 (based on construction and equipment indexes) would have been approximately $80 million higher than historical cost depreciation expense.

In October 1986, the Tax Reform Act of 1986 (the Act) was enacted. The Act reduces corporate income tax rates in 1987 and 1988, but eliminates investment tax credits that have reduced income tax expense for Monsanto in the past. The Act did not have a significant impact on Monsanto in 1986, nor is it expected to have a significant impact in 1987.

Net sales in 1985 increased from 1984, as the additional 1985 net sales of the acquired Searle and NutraSweet businesses more than offset the volume and price declines in other businesses. Sales volume declined 4 percent, excluding divestitures and the acquisition of Searle and NutraSweet, and selling prices declined 3 percent. Weak conditions in several of Monsanto's markets, particularly agriculture and semiconductors, and the cost of the restructuring program, resulted in an operating loss in 1985. The effect of the restructuring program was $949 million ($542 million after related taxes, or $7.04 per share). Also occurring in 1985 was a $392 million gain ($201 million after related taxes, or $2.61 per share) from the sale of the oil and gas operations. The strength of the U.S. dollar fueled heavy 1985 imports from international competitors. The net loss was partially offset by an extraordinary gain of $30 million ($0.40 per share) from the repayment of long-term debt at a discount.

Analysis of Change in Earnings per Share — Better (Worse)

	1986 vs. 1985	1985 vs. 1984
Sales Related Factors:		
Selling prices	$ 0.28	$(1.18)
Sales volume and mix	0.69	(1.98)
Total Sales Related Factors	0.97	(3.16)
Cost Related Factors:		
Raw material prices	1.28	0.52
Other manufacturing costs	0.09	0.40
Marketing, administrative and technological expenses	(0.49)	(0.42)
Nonrecurring costs (including Electronic Materials property write-down)	(0.98)	
Total Cost Related Factors	(0.10)	0.50
Other Factors:		
Acquisitions		
Operations	1.31	0.75
Intangible asset amortization	(0.87)	(0.62)
Restructuring — net	8.29	(7.04)
Divestitures	(0.48)	0.03
Total Other Factors	8.25	(6.88)
Operating Income	9.12	(9.54)
Interest expense		
Acquisition related	(0.20)	(0.84)
Other	0.06	0.24
Interest income	(0.15)	(0.22)
Gain from sale of oil and gas operations	(2.61)	2.61
Other income — net	0.92	(0.11)
Change in income taxes	0.15	0.65
Shares outstanding	(0.07)	0.12
Change in Income Before Extraordinary Gain	7.22	(7.09)
Extraordinary gain	(0.40)	0.40
Change in Earnings per Share	$ 6.82	$(6.69)

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OPERATING UNIT SEGMENT DATA

	Net Sales			Operating Income (Loss)			Research and Development		
	1986	1985	1984	1986	1985	1984	1986	1985	1984
Agricultural Products:									
Crop Chemicals	$1,067	$1,073	$1,256	$ 318	$ 177	$438	$ 94	$110	$107
Animal Sciences	86	79	82	(35)	(92)	(49)	41	32	22
Chemicals	3,548	4,051	4,360	613	(480)	336	105	128	131
Electronic Materials	154	137	220	(139)	(84)	4	15	16	14
Fisher Controls	645	652	550	(66)	34	27	21	20	23
NutraSweet	711	317		142	58		25	11	
Pharmaceuticals	665	262	15	(119)	(139)	(30)	177	96	24
Oil and Gas		172	203		16	27			
Biotechnology Product Discovery				(41)	(31)	(24)	39	31	24
Corporate Items and Eliminations	3	4	5	(38)	(57)	(52)	6*	26*	25*
Total consolidated	$6,879	$6,747	$6,691	$ 635	$(598)	$677	$523	$470	$370

Corporate R&D expenses are allocated on a weighted average basis of investment to operating units in determining operating income (loss).

	Total Assets			Capital Expenditures			Depreciation and Amortization		
	1986	1985	1984	1986	1985	1984	1986	1985	1984
Agricultural Products:									
Crop Chemicals	$ 939	$1,061	$1,236	$ 55	$ 84	$ 88	$ 84	$ 89	$ 80
Animal Sciences	217	174	184	33	31	31	21	21	20
Chemicals	2,704	2,982	3,222	244	291	279	236	248	273
Electronic Materials	228	302	280	51	55	47	122	37	30
Fisher Controls	612	636	536	38	53	32	36	28	21
NutraSweet	1,883	1,862		39	4		205	73	
Pharmaceuticals	1,394	1,438	80	53	33	7	67	39	7
Oil and Gas			578		85	107		59	69
Biotechnology Product Discovery	50	33	31	6	3	17	7	2	1
Corporate Assets	242	389	226	1	6	6	2	3	2
Total consolidated	$8,269	$8,877	$6,373	$ 520	$ 645	$614	$780	$599	$503

The above data should be read in conjunction with the Segment Information note to the financial statements on page 38.

In accordance with the recently issued Securities and Exchange Commission Staff Accounting Bulletin No. 67, operating income (loss) reflected in the operating unit segment data above has been restated to include the income (expense) associated with the restructuring program. The effect of the restructuring program on each operating unit segment for 1986 and 1985 is shown below.

	Income (Expense)	
	1986	1985
Agricultural Products:		
Crop Chemicals	$ (4)	$(121)
Animal Sciences	8	(37)
Chemicals	149	(714)
Electronic Materials	1	(17)
Fisher Controls		(2)
Pharmaceuticals		(55)
Corporate Items	4	(3)
Increase (decrease) in operating income	$158	$(949)

Crop Chemicals

Net Sales	1986	1985	1984
Herbicides and other agricultural chemicals	$1,067	$1,073	$1,256

The Crop Chemicals operating unit is a leading worldwide producer of agricultural herbicides, including *Roundup*, *Lasso*, *Avadex* BW and *Machete* herbicides.

The Crop Chemicals business overcame an extremely weak United States agricultural environment to post a solid performance in 1986, and a year-to-year improvement in operating results. Crop Chemicals sales, however, were essentially level year-to-year, but operating income in 1986 increased 80 percent. Operating income for 1985 was reduced by $121 million of restructuring expense. Sales volume growth in 1986 for *Roundup* herbicide throughout the world more than offset lower sales volume of *Lasso* herbicide. Triggered by a new pricing strategy, the use of *Roundup* herbicide to control perennial and annual weeds brought strong worldwide demand. Additional demand in the United States came

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from the industrial and residential markets. *Lasso* herbicide, which is sold principally in the United States to control grassy weeds in corn and soybean crops, was adversely affected by reduced plantings of these major crops due to the poor United States farm economy.

In 1986, the United States Environmental Protection Agency (EPA) issued a proposed regulatory decision as part of their Special Review of the benefits and potential risks of *Lasso* herbicide. The proposed regulatory decision would permit the continued use of alachlor (the active ingredient of *Lasso* herbicide) for all major crops, with certain conditions and label modifications, including "restricted use" classification. This classification would mean that use of *Lasso* herbicide would be restricted to certified applicators, or persons under their supervision, and to the method of application. The Company expects a final decision by the EPA in 1987. Monsanto's tests confirm that *Lasso* herbicide poses no unreasonable adverse effects to humans or the environment when used properly. No significant effect on financial results is expected from this review.

Crop Chemicals sales and operating income in 1985 declined 15 percent and 60 percent, respectively, from 1984 due to the costs associated with the restructuring program and lower sales volumes and prices in certain products. Sales volume of *Lasso* herbicide decreased 20 percent due to the weak United States farm economy, and was further affected by uncertain customer demand for the 1986 season. Worldwide usage of *Roundup* herbicide increased in 1985, but sales volume declined 2 percent, as United States customers reduced inventory levels. Strong demand for *Roundup* herbicide in other world areas partially offset lower United States sales.

Animal Sciences

Net Sales	1986	1985	1984
Animal products	$86	$79	$82

The Animal Sciences business focuses on animal nutrition and growth products, including *Alimet* animal feed supplement and BST, a bovine growth promotant that research indicates enhances the efficiency of milk production.

Sales for 1986 increased 9 percent over 1985. Sales volume of *Alimet* animal feed supplement increased significantly in 1986, but was partially offset by the elimination of sales of discontinued products, which were included in 1985 operating results. Progress continues to be made on BST, and management expects to begin ex-U.S. commercialization in 1988. A BST manufacturing facility is being constructed in Austria by a third party who will operate the facility for Monsanto. Continuing high levels of R&D expenses, principally for BST development, resulted in an operating loss in each of the last three years. The loss was lower in 1986 as a result of increased *Alimet* animal feed supplement sales, while 1985 included charges associated with the restructuring program.

Sales for 1985 declined 4 percent, as higher sales volume of *Alimet* animal feed supplement was offset by lower selling prices, resulting from ex-U.S. competition. Heavy R&D expenses, principally related to BST, the costs associated with the restructuring program and expanded marketing efforts resulted in an operating loss for 1985.

Chemicals

Net Sales	1986	1985	1984
Detergent materials	$536	$ 550	$ 577
Engineered products	205	251	281
Man-made fibers	856	1,080	1,194
Plastics	639	804	874
Resin products	584	637	693
Rubber chemicals and instruments	319	283	310
Specialty chemicals	409	446	431

Monsanto's worldwide chemicals unit produces a wide range of chemicals, plastics, fibers and other products listed in the table above.

Following several years of planned restructuring and cost reduction programs, the Chemicals businesses had an outstanding income performance in 1986. Operating income in the restructured, continuing higher-margin businesses improved significantly through efforts to increase gross margins, aided by favorable raw material and utilities costs, lower cost from reduced personnel, higher sales volumes and increased plant efficiencies.

Compared to 1985, however, sales declined in 1986 due to divested product lines. Sales related to the divested product lines were $645 million in 1985. For continuing product lines, 1986 sales volumes increased 4 percent. Selling prices were level in 1986, reflecting positive translation effects of ex-U.S. currency denominated sales which were offset by lower domestic prices.

Operating income improved significantly to $613 million in 1986, as compared with a $480 million operating loss in 1985. The 1985 loss resulted from the $714 million net expense associated with the restructuring program. All major businesses, led by fibers, achieved higher year-to-year profitability. Sales of various other products to the automotive, appliance and home furnishings industries also remained relatively strong throughout 1986. The weaker U.S. dollar also benefited the Chemicals segment operating performance, generating positive translation effects on ex-U.S. operations and increasing the competitiveness of Monsanto's United States produced products in world markets.

Product lines sold during 1986 that were not part of the 1985 restructuring program were acetic acid, paper chemicals and vanillin. In addition, Monsanto has announced its intention to sell the container business in early 1987. Sales of these products in 1986 were $164 million. As part of the 1985 restructuring program, the Seal Sands, United Kingdom plant was sold in

December 1985, and the Texas City, Texas plant was sold in August 1986. Various other product lines and facilities were shut down in 1986, including the Columbia, Tennessee plant.

Sales in 1985 declined 7 percent, as compared with 1984. This segment had an operating loss as a result of the costs associated with the 1985 restructuring program. Intense import competition and stagnant United States economic sectors associated with many of this segment's product lines resulted in lower selling prices and volumes for many of the product lines. The effects of lower plant capacity utilization rates in 1985 were partially offset by the benefits obtained from cost reduction programs and lower raw material costs.

Electronic Materials

Net Sales	1986	1985	1984
Electronic-grade silicon materials	$154	$137	$220

The Electronic Materials business produces electronic-grade silicon wafers for the semiconductor industry and has production facilities in Japan, South Korea, Malaysia, the United Kingdom and the United States. The facilities in Japan and the United Kingdom began production in 1986, and the facility in South Korea began production in early 1987.

Sales in 1986 were higher than 1985, but still weak due to the prolonged downturn of the United States electronics end-user equipment markets, primarily the computer and office equipment segments. Ex-U.S. sales continued to grow in 1986. Operating losses increased significantly in 1986 as a result of the $90 million pre-tax write-down of property, plant and equipment values. The decision to write down these assets was made in recognition of reduced growth in the worldwide semiconductor industry, coupled with a continuing shift of demand to Japanese and other Pacific Basin producers of semiconductor devices. The reduced growth is compounded by the difficulty in effectively penetrating the large Japanese market. The write-down reduced asset values to a level more properly reflecting future cash flows under projected market conditions, principally for the United States operations. Also in 1986, the company reduced the number of employees, reduced manufacturing costs and discontinued certain technical programs not related to current product lines. Actions taken in the past few years have significantly reduced Monsanto's break-even point in plant capacity utilization, which will benefit this segment in the future.

Sales in 1985 declined 38 percent from 1984, reflecting sharply lower demand for silicon wafers in the depressed semiconductor market during the second half of the year. This resulted in an operating loss in 1985. The operating loss in 1985 was increased by costs associated with the restructuring program.

Fisher Controls

Net Sales	1986	1985	1984
Valves, regulators, electronic process controls and gas separation systems	$645	$652	$550

Fisher Controls is a leading worldwide producer of industrial valves and regulators, as well as state-of-the-art *PRōVOX* electronic process control systems and gas separation systems.

Fisher Controls experienced a difficult year in 1986. Sales declined 1 percent in 1986, and operating income declined from $34 million in 1985 to a loss of $66 million in 1986. Demand for control valves and gas separation systems was weak as a result of poor economic conditions in the oil and gas industry, and lower capital spending by customers in the chemical industry. Sales of *PRōVOX* systems increased slightly in 1986. Fisher Controls' engineering and installation business, however, experienced a significant increase in European sales in 1986.

The 1986 operating loss resulted principally from depressed sales to the important oil and gas and chemicals industries and from actions taken in late 1986 to reduce future operating costs. These actions included reducing employment 14 percent worldwide in the process control business, discontinuing certain low-return product lines and consolidating certain facilities. The objective of these actions is to return Fisher Controls to profitability in 1987.

Sales in 1985 increased 19 percent from 1984 as sales of *PRōVOX* instrumentation systems grew and selling prices for other products were higher. Sales of gas separation systems also increased significantly. Operating income improved 26 percent, as these positive factors were partially offset by higher levels of marketing effort associated with launching *PRōVOX*, an operating loss of a small company acquired in 1985 and currency devaluations in Mexico.

NutraSweet

Net Sales	1986	1985*
NutraSweet low-calorie sweetener products	$711	$317

**For the five-month period August-December 1985.*

The NutraSweet Company manufactures *NutraSweet* brand sweetener, a low-calorie sweetening ingredient, which is sold worldwide. The company also markets the low-calorie tabletop sweetener *Equal* throughout the United States.

The NutraSweet Company continued its strong performance in 1986, with sales of $711 million and operating income of $142 million. Sales and operating income included in 1985 were for the August-December period only, following the acquisition of this business by Monsanto. Product sales in 1985 included $49 million of certain consumer products which were divested in December 1985.

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Sales in 1986 reflected the market performance of retail products containing *NutraSweet* and changes in inventory levels throughout the distribution chain. The sugar-free segment of carbonated soft drinks, the largest market for *NutraSweet*, continued to grow as it has in the past few years. However, the powdered soft drink market declined in 1986, resuming a long-term declining trend that had been temporarily reversed by the introduction of *NutraSweet* brand sweetener in 1983.

In November 1986, the Food and Drug Administration approved *NutraSweet* for use in several new food categories, including refrigerated juice drinks in concentrate and ready-to-drink form, and ready-to-eat frozen confections on a stick.

Operating income in 1986 reflected the impact of amortization expense related to intangible assets recorded as part of the acquisition. Operating income benefited from lower raw material costs and additional manufacturing efficiencies. A new process technology is being installed at the Augusta, Georgia manufacturing facility and is scheduled to be completed in early 1987.

Sales in 1985 benefited from the leading companies in the carbonated soft drink industry converting from a *NutraSweet*/saccharin formulation to 100 percent *NutraSweet*.

Pharmaceuticals

Net Sales	1986	1985*	1984
Pharmaceutical products	$665	$262	$15

**Includes Searle for the five-month period August-December 1985.*

This segment includes the worldwide prescription pharmaceutical business of G.D. Searle & Co. Searle is investing heavily in the research and development programs necessary to introduce new prescription pharmaceuticals.

Sales increased to $665 million in 1986 and were 10 percent higher than the full year 1985, including the period prior to acquisition. Sales in 1986 benefited from more favorable ex-U.S. currency translation and increased sales of physician-promoted products such as *Calan* and *Demulen 35*. Sales of *Cytotec*, Searle's ulcer treatment drug, continued to grow in many ex-U.S. markets. *Cytotec* was introduced in West Germany, Brazil and Canada in 1986 and work continues toward eventual registration of the drug for sale in the United States, the United Kingdom and Japan. Sales of certain mature products, such as *Norpace* and *Flagyl*, declined. Operating losses in 1986 and 1985 resulted from the continuing research efforts in human health care. The operating loss in 1985 was also affected by the costs of the restructuring program.

Sales in 1985 included the acquired Searle product lines for the August-December period only, following acquisition by Monsanto. Operating losses in 1985 and 1984 included Monsanto's pharmaceutical research effort.

Biotechnology Product Discovery

	1986	1985	1984
Research and development expenses	$39	$31	$24

These expenses relate to basic and applied biotechnological research aimed at discovering new biotechnology-based product opportunities that are further developed and commercialized by the Pharmaceuticals, Crop Chemicals and Animal Sciences businesses. The cost of the current biotechnology product development effort directly related to Pharmaceuticals, Crop Chemicals and Animal Sciences activities is included as an expense in those segments. Continuing high levels of research have resulted in increasing expenses over the three-year period, and promising new product leads.

GEOGRAPHIC DATA

	Net Sales to Unaffiliated Customers			Operating Income (Loss)			Total Assets		
	1986	1985	1984	1986	1985	1984	1986	1985	1984
United States	$4,638	$4,794	$4,914	$506	$(784)	$475	$6,608	$7,077	$5,088
Europe-Africa	1,231	1,076	945	117	191	192	1,013	1,019	772
Canada	290	298	278	26	34	25	116	120	105
Latin America	283	220	203	6	(3)	4	243	232	178
Asia-Pacific	437	359	351	16	9	31	385	299	257
Inter-area Eliminations				2	12	2	(338)	(259)	(253)
Corporate Items				(38)	(57)	(52)	242	389	226
Total consolidated	$6,879	$6,747	$6,691	$635	$(598)	$677	$8,269	$8,877	$6,373

The data above are prepared on an "entity basis," which means that sales, operating income and assets of the legal entity are assigned to the geographic area where the entity is located (e.g., a sale from the United States to Latin America is reported as a United States sale). Inter-area sales between Monsanto entities have been excluded from the above table, but are shown in the Segment Information note to the financial statements on page 38.

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United States

Sales in 1986 declined slightly from 1985. The comparison is affected by divestitures and by the acquisition of Searle and NutraSweet. Sales of continuing businesses increased 2 percent in 1986. Sales in 1986 were positively affected by strong Chemicals, NutraSweet and *Roundup* herbicide sales. *Lasso* herbicide, Electronic Materials and Fisher Controls sales were depressed because of extreme weakness in their end-use markets.

The significantly improved profitability of the Chemicals businesses, along with *Roundup* herbicide growth and the inclusion of NutraSweet operating results for the full year, were major contributors to 1986 operating income. Operating income was positively affected by cost reduction measures, lower raw material costs, the implementation of a new pension accounting rule and $155 million in restructuring income, partially offset by the Electronic Materials property write-down. The 1985 operating loss resulted from a $963 million net expense related to the restructuring program.

For 1985, sales declined slightly as sales of the acquired Searle and NutraSweet businesses were offset by the effects of a difficult United States farm economy, a downturn in the semiconductor materials market and stiff competition from ex-U.S. manufacturers. The strength of the U.S. dollar adversely affected prices and volumes of many chemical-based product lines. These factors, coupled with the net expense for the restructuring program, resulted in an operating loss in 1985.

Sales from the United States to ex-U.S. third party customers were $346 million, $379 million and $417 million for 1986-1984, respectively. These sales and the related income are included in the United States geographic data. The impact of product divestitures on 1986 sales more than offset the 1986 benefits of the weaker U.S. dollar's impact on the competitiveness of United States produced materials in the world markets.

Europe-Africa

European-African 1986 sales were $1,231 million, an increase of 14 percent over 1985. The year-to-year comparison is affected by divested product lines and by the inclusion of Searle results for the full year 1986. Europe-Africa benefited in 1986 from sales volume gains in *Roundup* herbicide and certain chemicals. The effect of translating stronger ex-U.S. currency-denominated operating results into U.S. dollars also increased sales and operating income. Operating income in 1986 was affected by cost reduction program expenses in Fisher Controls and the exclusion of operating income of the chemical intermediates plant at Seal Sands, United Kingdom, which was divested in late 1985. Operating income in 1986 also declined due to the inclusion in 1985 of $26 million of net restructuring income. In mid-1986, a new Electronic Materials finishing plant began production in the United Kingdom.

Sales in 1985 increased over 1984 on the strength of Chemicals, Fisher Controls and the inclusion of Searle businesses for the August-December 1985 period following the acquisition. Excluding the impact of the net restructuring income, operating income declined due to lower Chemicals profitability and higher Pharmaceuticals expenses.

Canada

Canadian 1986 sales were $290 million, a 3 percent decline from 1985 due to lower sales of *Avadex* BW herbicide and discontinued product lines, partially offset by NutraSweet sales and the inclusion of Searle sales for the full year 1986. The lower sales of *Avadex* BW and the divested oil and gas business also negatively affected operating income, which declined 24 percent from 1985. Offsetting these factors was the inclusion of Searle operating income for the full year 1986. Canadian operating income does not include the full profitability generated by sales into Canada from other Monsanto locations.

Sales in 1985 increased from 1984 due to higher Fisher Controls sales and the acquired Searle product lines, which more than offset the lower sales of detergent products. Operating income increased due to the addition of profitable Searle product lines and improved Crop Chemicals and Chemicals profitability.

Latin America

Latin American sales in 1986 were $283 million, an increase of 29 percent over 1985. Two thirds of this increase was due to the inclusion of Searle sales for the full year 1986. Improved economic conditions in Brazil and Argentina resulted in sales volume gains for Crop Chemicals, *Lustrex* plastic, rubber chemicals and phosphates. Shipments of *Roundup* herbicide were particularly strong in 1986. Latin American operating income does not include the full profitability generated by sales into Latin America from other Monsanto locations.

Sales in 1985 increased over 1984, as strong sales of plastics and the inclusion of Searle sales offset lower sales of Crop Chemicals. The operating loss in 1985 resulted from restructuring expenses.

Asia-Pacific

Asia-Pacific sales in 1986 were $437 million, an increase of 22 percent over 1985. Operating income increased to $16 million, principally due to the inclusion of Searle operating results for the full year 1986. Sales in 1986 also benefited from higher volume of *Roundup* herbicide and the positive effect of translating ex-U.S. currency-denominated sales into U.S. dollars. While Electronic Materials sales increased in the Japanese market, Monsanto's market share remains well below the potential. New plants were commissioned in Japan and South Korea which will further strengthen Monsanto's position in these critical Asian markets. Asia-Pacific operating income does not include the full profitability generated by sales into Asia-Pacific from other Monsanto locations.

Sales in 1985 increased slightly from 1984 due to the inclusion of Searle sales, but operating income declined 71 percent. Operating income in 1985 was down significantly because of lower Crop Chemicals and Electronic Materials sales and lower Chemicals profitability. Sales and operating income were also adversely affected by the Australian dollar currency translation.

RESEARCH AND DEVELOPMENT

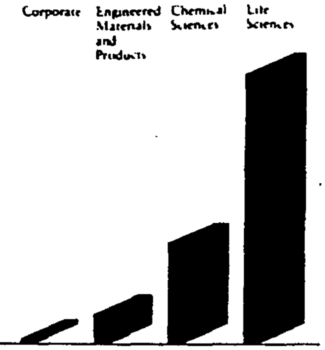
New Product Commercialization Is Top Priority
New product development and commercialization springing from a unique and highly technological base remain a top priority. Monsanto's commitment to developing new products and market opportunities is evidenced by the direction of expenditures in recent years. R&D expenses as a percent of sales reached a record 8 percent in 1986, compared with 7 percent in 1985 and 6 percent in 1984.

Research Focused on Emerging Technologies
Monsanto's research efforts in 1986 continued to focus on emerging technologies — biotechnology, human health care, plant biology and animal nutrition. In 1986, approximately 40 percent of total R&D expenses was directed toward these emerging technologies.

The bovine growth promotant, BST, will probably be the first commercial product resulting from Monsanto's biotechnology research. Other potential products from biotechnology are diverse and include genetically improved crops and second generation tPA (tissue plasminogen activator) for use in treating heart attacks. These products are expected to generate profits in the early 1990s.

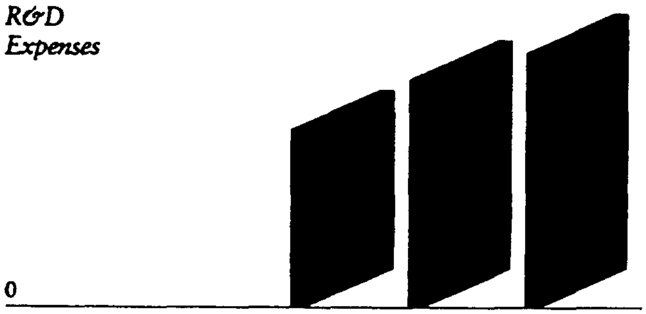
Substantial research efforts also continue to support existing areas of strength within Monsanto, including agricultural chemistry, catalysis, polymer science, industrial chemistry, electronic materials, chemical engineering systems and applications research. The NutraSweet Company also conducts research aimed at expanding markets for *NutraSweet* and developing new sweeteners for the future.

1986 R&D By Business Area



Percent of Total R&D Expenses	1%	7%	25%	67%

R&D Expenses



Year	1984	1985	1986
Dollars in Millions	$370	$470	$523

Monsanto/Searle Research Successfully Combined
Significant efforts were devoted in 1986 to optimize human health care research programs, facilities and staff of Monsanto and Searle. These efforts have resulted in the elimination of duplicate research efforts. The acquisition of Searle significantly expanded and complemented Monsanto's research capabilities in biotechnology and human health care, adding experienced professionals and facilities to Monsanto's existing research organization. Searle also brought to Monsanto established organizations skilled at developing and marketing products that flow from the research program. The combination of these strengths, with the Company's strengths in basic and applied research in molecular biology and biotechnology and with Washington University's extensive biomedical discovery capabilities, will further Monsanto's efforts toward its goal of becoming a major worldwide supplier in the pharmaceutical industry. This research focuses on diseases of the cardiovascular and gastrointestinal systems, the central nervous system and the immune system.

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QUARTERLY DATA

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Net Sales	1986	$1,745	$1,869	$1,695	$1,570	$6,879
	1985	1,624	1,627	1,741	1,755	6,747
Gross Profit	1986	678	778	527	552	2,535
	1985	441	471	470	524	1,906
Income (Loss) Before Extraordinary Gain	1986	118	148	144	23	433
	1985	87	124	31	(370)	(128)
Net Income (Loss)	1986	118	148	144	23	433
	1985	87	124	31	(340)	(98)
Earnings per Share						
Before Extraordinary Gain	1986	1.52	1.90	1.85	0.28	5.55
	1985	1.12	1.60	0.42	(4.81)	(1.67)
After Extraordinary Gain	1986	1.52	1.90	1.85	0.28	5.55
	1985	1.12	1.60	0.42	(4.41)	(1.27)
Dividends per Share	1986	0.625	0.65	0.65	0.65	2.575
	1985	0.575	0.625	0.625	0.625	2.45
Common Stock Price						
1986	High	65¼	74⅞	77	81½	81½
	Low	44¾	56¾	63½	67⅞	44¾
1985	High	46¾	49	55⅜	49⅜	55⅛
	Low	41½	42½	44½	40⅝	40⅝

Net income in each quarter of 1986 was higher than the comparable quarter of 1985. Affecting the year-to-year comparison are the elimination of the operating results of certain low-return businesses and assets divested as part of the restructuring program, and the inclusion of Searle and NutraSweet operating results for the full year in 1986.

Crop Chemicals sales historically are concentrated in the first half of the year and generally are more profitable than sales of other segments.

The 1986 and 1985 nonrecurring or unusual items increasing (decreasing) earnings per share (after related taxes) were as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
1986					
Restructuring income — net			$ 1.04	$ 0.21	$ 1.25
Gains from other asset sales			0.75	0.08	0.83
Change in accounting for pension expense		$ 0.16	0.08	0.08	0.32
Electronic Materials property write-down			(0.59)		(0.59)
Change in annual effective tax rate	$(0.04)	(0.08)	(0.06)	0.18	
Other nonrecurring expenses			(0.39)		(0.39)
1985					
Restructuring expense — net				(7.04)	(7.04)
Gain from sale of oil and gas operations				2.61	2.61
Gain from repayment of debt				0.40	0.40

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STATEMENT OF CONSOLIDATED FINANCIAL POSITION

(Dollars in millions, except per share)	At December 31	
Assets	1986	1985
Current Assets:		
Cash, time deposits and certificates of deposit	$ 206	$ 195
Short-term securities, at cost which approximates market	68	98
Trade receivables, net of allowances of $36 in 1986 and $42 in 1985	1,037	1,218
Miscellaneous receivables and prepaid expenses	221	402
Deferred income tax benefit	207	267
Inventories	1,069	1,097
Total Current Assets	2,808	3,277
Intangible Assets, net of accumulated amortization of $337 in 1986 and $110 in 1985	2,144	2,199
Investments in Affiliates	198	164
Other Assets	206	203
Property, Plant and Equipment, at cost:		
Land	102	101
Buildings	1,002	961
Machinery and equipment	4,964	5,494
Construction-in-progress	258	284
Total Property, Plant and Equipment, at cost	6,326	6,840
Less accumulated depreciation	3,413	3,806
Net Property, Plant and Equipment	2,913	3,034
Total Assets	$8,269	$8,877

Liabilities and Shareowners' Equity		
Current Liabilities:		
Accounts payable	$ 460	$ 522
Wages	133	129
Income and other taxes	157	348
Miscellaneous accruals	577	675
Short-term debt	389	704
Total Current Liabilities	1,716	2,378
Long-Term Debt	1,630	2,087
Deferred Income Taxes	548	584
Other Liabilities	594	421
Shareowners' Equity:		
Common stock — authorized, 200,000,000 shares, par value $2; issued 82,197,097 shares in 1986 and 1985	164	164
Additional contributed capital	861	854
Accumulated currency adjustment	(98)	(191)
Reinvested earnings	3,058	2,824
Treasury stock, at cost (4,538,008 shares in 1986 and 5,444,544 shares in 1985)	(204)	(244)
Total Shareowners' Equity	3,781	3,407
Total Liabilities and Shareowners' Equity	$8,269	$8,877

The above statement should be read in conjunction with pages 33 through 38 of this report.

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REVIEW OF LIQUIDITY AND CAPITAL RESOURCES

Significant Progress Made in Strengthening Financial Position
Monsanto met its aggressive 1986 goal of significantly improving its financial position, which in late 1985 had temporarily declined as a result of the additional debt incurred to finance the acquisition of Searle and NutraSweet. This improvement was possible due to the strong 1986 operating cash flow of the Chemicals, Crop Chemicals and NutraSweet businesses and from the significant cash proceeds from the divestitures of product lines and assets.

Debt Reduction Program Accomplished
Monsanto reduced the $2.8 billion debt incurred to finance the August 1985 acquisition of Searle and NutraSweet to $1 billion at year-end 1986. The total debt to total capitalization ratio improved significantly by year-end 1986 to 35 percent, as compared with 45 percent at year-end 1985. Management believes this 1986 year-end ratio is an acceptable level. The Company's long-term debt continues to carry a "single A" rating.

The interest coverage ratio (times interest earned) improved compared with 1985 due to higher profitability levels, partially offset by higher interest expense. That ratio was 3.2 in 1986 (excluding the restructuring income), compared with 2.3 in 1985 (excluding the restructuring expense, the gain from the sale of the oil and gas operations and the extraordinary gain) and 6.9 in 1984. Management expects continued improvement of this ratio over time.

Monsanto has available various short- and medium-term bank credit lines, which are discussed in the "Short-Term Debt and Credit Arrangements" and "Long-Term Debt" notes to financial statements (page 37).

When beneficial, Monsanto utilizes both the United States and ex-U.S. financial markets for its financing needs. To a limited extent, Monsanto has used other forms of financing, principally lease arrangements and joint venture arrangements, when the effective interest cost is attractive or the nature of the capital project requires their use. Monsanto has also made use of pollution control and industrial development bonds to finance qualified projects. Pollution control and industrial development bond obligations were 16 percent of all outstanding long-term debt at year-end 1986. Monsanto's assets generally are free from lien and not used to collateralize debt.

Working Capital Strengthened
Monsanto's current ratio (current assets divided by current liabilities), an indicator of liquidity, was 1.6 at year-end 1986, compared with 1.4 at year-end 1985. Management believes the year-end 1986 ratio is acceptable, but seeks to further improve it to a 2.0 ratio. Working capital increased to $1,092 million at year-end 1986, compared with $899 million in 1985. Working capital benefited from funds provided by operations and divestitures. Trade receivables and inventories declined in 1986, compared with 1985 levels, as increases associated with the growth of continuing businesses were more than offset by the elimination of receivables and inventories associated with discontinued product lines.

Intangible assets declined slightly as amortization in 1986 was partially offset by final appraisal adjustments to the recorded values of Searle and NutraSweet patents and other intangible assets.

Property, plant and equipment declined in 1986, as depreciation and assets associated with facilities sold during the year exceeded capital expenditures.

The weakening of the U.S. dollar, relative to ex-U.S. currencies in which Monsanto conducts business, resulted in the accumulated currency adjustment account decreasing to $98 million at year-end 1986. Currency adjustments are accumulated in this account until the related ex-U.S. investment is sold or liquidated.

As part of its program to manage assets effectively, Monsanto continually evaluates risk retention and insurance levels for product liability, property damage and other potential losses. Monsanto devotes significant effort to maintaining and improving safety and internal control programs, which minimize certain risks. Based on the cost and availability of insurance and the likelihood of a loss occurring, management decides the amount of insurance coverage to purchase from unaffiliated companies and the appropriate amount of risk to retain. To achieve the optimal balance of risk and cost, Monsanto is retaining a greater portion of its total risk than it has in prior years. Management believes that the current levels of risk retention are appropriate and are consistent with other companies in the various industries in which Monsanto operates.

Key Financial Statistics

	1986	1985
Working Capital (Current assets less current liabilities)	$1,092	$899
Current Ratio (Current assets divided by current liabilities)	1.6	1.4
Percent of Total Debt to Total Capitalization*	35%	45%
Percent of Total Debt to Total Shareowners' Equity	53%	82%

**Total capitalization is the sum of short-term debt, long-term debt and shareowners' equity.*

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STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

(Dollars in millions)			
Sources (Uses) of Funds	1986	1985	1984
Operations:			
Income (loss) before extraordinary gain	$ 433	$ (128)	$ 439
Charges not using (credits not providing) funds:			
Depreciation and amortization	780	599	503
Deferred income taxes	24	93	103
Other	(12)	(16)	(37)
Gains from asset sales — net (after tax)	(78)	(201)	
Restructuring — net (after tax)	(97)	542	
Funds provided by operations, before changes in working capital and extraordinary gain	1,050	889	1,008
Investment and Other Transactions:			
Extraordinary gain from debt repayment		30	
Working capital changes:			
Trade receivables	181	2	37
Inventories	28	(54)	(61)
Other current assets	181	(258)	(16)
Accounts payable and accrued liabilities	(275)	28	(42)
Short-term debt	33	(108)	24
Total working capital changes	148	(390)	(58)
Foreign currency adjustments on working capital	42	69	(58)
Property, plant and equipment additions	(520)	(645)	(614)
Net proceeds from investment and property disposals (gross proceeds of $344 in 1986 and $1,612 in 1985)	266	1,402	39
Repayment of short-term acquisition debt	(348)	(1,154)	
Acquisitions and investments (other than Searle)	(29)	(78)	(94)
Other	(7)	62	47
	(448)	(704)	(738)
Acquisition of Searle:			
Acquisition financing		2,754	
Searle assets and liabilities acquired:			
Working capital, excluding cash		279	
Intangible assets		(2,166)	
Other noncurrent assets		(1,023)	
Noncurrent liabilities		372	
Searle cash, time deposits and certificates of deposit at acquisition		216	
Financial Transactions:			
Long-term financing	675	415	12
Long-term debt reduction	(1,139)	(723)	(127)
Treasury stock purchases		(91)	(184)
Common stock issuances under employee stock plans	42	20	13
Dividends	(199)	(188)	(182)
	(621)	(567)	(468)
Decrease in Funds	$ (19)	$ (166)	$ (198)

Increase (Decrease) in Elements of Funds:			
Cash, time deposits and certificates of deposit	$ 11	$ 46	$ (15)
Short-term securities	(30)	(212)	(183)
Decrease in Funds	$ (19)	$ (166)	$ (198)

The above statement should be read in conjunction with pages 33 through 38 of this report.

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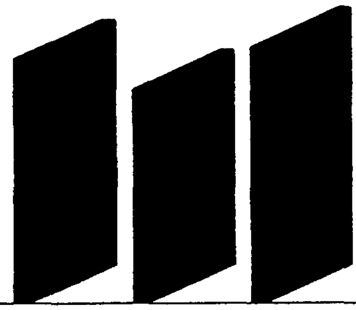
REVIEW OF SOURCES AND USES OF FUNDS

Monsanto's sources and uses of funds for the three-year period 1986-1984 are shown in the Statement of Changes in Consolidated Financial Position on the preceding page.

Funds Provided By Operations



Year	1984	1985	1986
Dollars in Millions	$1,008	$889	$1,050

Operations Provided Substantial Financial Resources

Funds provided by operations were strong in 1986, reaching $1,050 million, due to substantial funds generated by the Chemicals, Crop Chemicals and NutraSweet businesses. The amortization expense related to the acquired Searle and NutraSweet intangible assets significantly reduces operating income, but does not reduce funds provided by operations.

The significant level of 1986 funds provided by operations, supplemented by an additional $344 million of gross proceeds from the sales of product lines and other assets, was used to reduce debt to more acceptable levels and to fund Monsanto's aggressive research programs and growth investments. At year-end 1985, total debt (both short-term and long-term debt) was $2,791 million. The Company surpassed its debt repayment target in 1986, reducing total debt to $2,019 million at year-end 1986 — a significant accomplishment. Also during 1986, the Company refinanced $606 million of commercial paper by issuing medium- and long-term debt in the United States and ex-U.S. financial markets at favorable interest rates.

New Monsanto Is Less Capital Intensive

Expenditures for property, plant and equipment declined to $520 million in 1986. The lower level of capital spending is indicative of the future growth investment strategy, as Monsanto moves away from capital intensive businesses toward research-based businesses. This trend is expected to continue. Prior years' capital expenditures included $85 million in 1985 and $107 million in 1984 for the oil and gas business, which was sold in December 1985. The more significant 1986 expenditures were for the installation of new process technology at NutraSweet's Augusta, Georgia facility and new Electronic Materials plants in Japan and the United Kingdom.

Depreciation and amortization expense increased significantly in 1986 due to a full year's amortization of the Searle and NutraSweet intangible assets and the Electronic Materials property write-down.

Future Operations Expected to Fund Growth

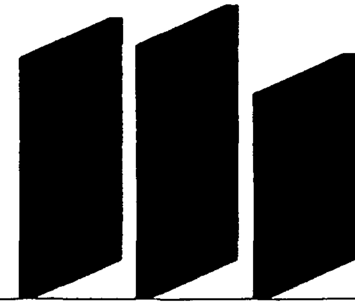
The most important impact of inflation, in the Company's view, is its effect on comparisons of annual investment levels and cash generation. Other than the acquisition of Searle and NutraSweet, Monsanto's operations have generated sufficient cash to fund investments required to maintain the existing earnings base, and a significant portion of the research programs and growth-related investments. In the future, a major portion of Monsanto's growth will continue to be financed with internally generated funds.

Dividends Increase for 14th Consecutive Year

The Company has paid dividends on its common shares without interruption or reduction since 1928 and has increased the dividend in each of the past fourteen years. Dividend payout for 1986 was 19 percent of funds provided by operations and 46 percent of net income. The Company's dividend policy reflects a desired long-term payout percentage based on Monsanto's expectation of future growth and profitability levels. In any individual year, additional consideration is given to expected financial position and results, working and fixed capital needs, scheduled debt repayments and economic conditions, including inflation.

Monsanto's common stock is traded principally on the New York Stock Exchange. The number of shareowners of record as of February 27, 1987, was 68,178 and the high and low common stock prices on that date were $77¾ and $76⅛.

Capital Expenditures



Year	1984	1985	1986
Dollars in Millions	$614	$645	$520

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STATEMENT OF CONSOLIDATED SHAREOWNERS' EQUITY

(Dollars in millions, except per share)	1986	1985	1984
Common Stock:			
Balance, January 1	$ 164	$ 164	$ 82
New shares issued (138,117 shares in 1984)			–
Par value of stock issued in two-for-one stock split			82
Balance, December 31	**$ 164**	**$ 164**	**$ 164**
Additional Contributed Capital:			
Balance, January 1	$ 854	$ 855	$ 936
New shares issued			–
Par value of stock issued in two-for-one stock split			(82)
Other	7	(1)	1
Balance, December 31	**$ 861**	**$ 854**	**$ 855**
Accumulated Currency Adjustment:			
Balance, January 1	$ (191)	$ (319)	$ (200)
Translation adjustments	103	131	(121)
Income taxes	(10)	(3)	2
Balance, December 31	**$ (98)**	**$ (191)**	**$ (319)**
Reinvested Earnings:			
Balance, January 1	$2,824	$3,110	$2,853
Net income (loss)	433	(98)	439
Common dividends	(199)	(188)	(182)
Balance, December 31	**$3,058**	**$2,824**	**$3,110**
Common Stock in Treasury:			
Balance, January 1	$ (244)	$ (176)	$ (4)
Shares purchased (2,052,300 and 4,053,300 shares in 1985 and 1984, respectively)		(91)	(184)
Issuances under employee stock plans (906,536; 523,827 and 349,837 shares in 1986-1984, respectively)	40	23	12
Balance, December 31	**$ (204)**	**$ (244)**	**$ (176)**

The above statement should be read in conjunction with pages 33 through 38 of this report.

Key Financial Statistics

		1986	1985	1984
Common Stock Price*	High	$ 81½	$ 55⅛	$ 53⅞
	Low	44¾	40⅝	40[illegible]
Per Common Share	Dividends	2.575	2.45	2.25
	Shareowners' Equity	48.69	44.38	46.43

**Based on daily reported high and low common stock prices.*

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NOTES TO FINANCIAL STATEMENTS

Significant Accounting Policies
The Company's significant accounting policies are italicized in the following Notes to Financial Statements.

Reclassification
In December 1986, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 67, "Income Statement Presentation of Restructuring Charges" (SAB No. 67). SAB No. 67 requires restructuring charges to be included in operating income. In accordance with SAB No. 67, "Restructuring expense (income) — net" in the 1985 Statement of Consolidated Income has been reclassified as a reduction of operating income. In addition, the gain from the sale of the oil and gas operations has been shown separately in the 1985 Statement of Consolidated Income.

Basis of Consolidation
The consolidated financial statements include the Company and its majority-owned subsidiaries. Intercompany transactions have been eliminated in consolidation. Companies in which Monsanto has an ownership interest between 20 and 50 percent are included in "Investments in Affiliates" in the Statement of Consolidated Financial Position, and Monsanto's share of these companies' income or loss is included in "Other income — net" in the Statement of Consolidated Income.

Currency Translation
Most of Monsanto's ex-U.S. entities' financial statements are translated into U.S. dollars using current exchange rates. Unrealized currency adjustments in the Statement of Consolidated Financial Position are accumulated in shareowners' equity. The financial statements of ex-U.S. entities that operate in hyperinflationary economies, including Brazil, Mexico and Argentina, are translated at either current or historical exchange rates, as appropriate. These currency adjustments are included in net income.

Major currencies are the U.S. dollar, British pound sterling and Belgian franc. Other important currencies include the German mark, French franc, Canadian dollar, Australian dollar, Japanese yen, Brazilian cruzado and Mexican peso. Currency restrictions are not expected to have a significant effect on Monsanto's cash flow, liquidity or capital resources.

Principal Acquisitions
In August 1985, Monsanto acquired G.D. Searle & Co. for $2,754 million. The pharmaceutical business of Searle and the former health care division of Monsanto operate as G.D. Searle & Co., a Monsanto subsidiary. The low-calorie sweetener business, formerly a part of Searle, operates as another Monsanto subsidiary, The NutraSweet Company. The acquisition was accounted for using the purchase method, and Searle's and NutraSweet's assets and liabilities were recorded at their estimated fair values at the date of acquisition. The $604 million excess of the purchase price over the fair value of the identifiable net assets acquired is being amortized on a straight-line basis over 40 years. Searle's and NutraSweet's results of operations have been included in the Statement of Consolidated Income from August 1985.

The following table presents unaudited, pro forma operating results as if the acquisition of the Searle and NutraSweet businesses and the sales of certain assets (described below) had occurred on January 1, 1985 and 1984.

	1985	1984
Net sales	$7,150	$7,469
Net income (loss)	(136)	331
Earnings per share, after extraordinary gain	(1.77)	4.09

The pro forma operating results include Searle's and NutraSweet's results of operations for the indicated years, less increased amortization of intangible assets, increased interest expense on the acquisition debt, and related income tax effects. In addition, the pro forma results reflect lower interest expense that would have resulted from using the net proceeds from certain sales of assets to reduce debt, as if those transactions had occurred on January 1 of the years presented. Asset sales include the sale of Searle's investment in Pearle Health Services, Inc. and Searle's nonprescription pharmaceuticals business; and Monsanto's oil and gas business, the Seal Sands, United Kingdom plant and certain other assets. The gross sales proceeds from these transactions were $1,612 million. Where determinable, the operating results associated with the above described assets have been eliminated from the pro forma data presented above. Nonrecurring gains and losses from the sales of these assets have been excluded from the pro forma operating results.

The pro forma operating results do not purport to present Monsanto's actual operating results had the acquisition of the Searle and NutraSweet businesses and the other transactions referred to above occurred on January 1 of the years presented, nor to present Monsanto's consolidated operating results for any subsequent period.

Restructuring

In October 1985, the Company's Board of Directors approved a restructuring and reorganization program. The approved actions included the withdrawal from selected low-return businesses and production facilities, the sale of certain assets that no longer had strategic importance and reductions in the number of employees. During the fourth quarter of 1985 the Company provided a $949 million charge to "Restructuring expense (income) — net" in the Statement of Consolidated Income, comprising the following:

Asset write-downs	$ 530
Cost of employee reductions, including a Special Incentive Retirement Program	252
Other costs	273
Gains on sales of assets	(106)
Total	$ 949

As part of the restructuring and reorganization program, several sales of businesses and production facilities subsequently occurred. The gains on asset sales shown above principally were from the sale of the Seal Sands, United Kingdom chemical intermediates plant in the fourth quarter of 1985 at a net after-tax gain of $82 million, or $1.06 per share.

The impact on 1985 net income from the restructuring and reorganization program was $542 million (net of estimated tax benefits of $407 million), or $7.04 per share.

Also in the fourth quarter of 1985, Monsanto sold its oil and gas operations at a net gain of $201 million ($392 million before tax), or $2.61 per share. The gain is shown separately in the Statement of Consolidated Income.

Subsequent to its acquisition by Monsanto, Searle sold its investment in Pearle Health Services, Inc. and its nonprescription pharmaceuticals business in 1985. Because Monsanto recorded the assets of these businesses at their fair values as of the date of acquisition, no gain or loss resulted from these sales.

The 1986 gain included in "Restructuring expense (income) — net" resulted from the sales of product lines that were planned for divestiture under the 1985 restructuring program. The principal sale was those product lines of the Texas City, Texas petrochemical plant that were part of the restructuring program. The impact on 1986 net income from the restructuring gain was $97 million (after related taxes), or $1.25 per share.

A Special Incentive Retirement program was effective in November and December 1985. Of the 3,880 United States employees eligible under the program, 2,358 elected to accept early retirement.

The restructuring program was substantially completed by the end of 1986. Net sales in 1985 of the subsequently divested product lines were $931 million, principally in the Chemicals segment.

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Depreciation and Amortization

	1986	1985	1984
Depreciation and depletion	$423	$477	$449
Amortization of intangible assets	218	88	7
Obsolescence	139	34	47
Total	$780	$599	$503

The cost of plant and equipment is depreciated over weighted average periods of 22 years for buildings and 11 years for machinery and equipment, using the straight-line method.

Patents ($1,234 million and $1,219 million at December 31, 1986 and 1985, respectively) are amortized over their legal lives (approximately 8 years in 1986). Other intangible assets ($257 million and $330 million at December 31, 1986 and 1985, respectively) are amortized over their estimated useful lives (approximately 28 years in 1986). Goodwill ($653 million and $650 million at December 31, 1986 and 1985, respectively) is amortized over periods of 5 to 40 years, with a weighted average amortization period of 38 years in 1986.

Obsolescence in 1986 included a $90 million charge ($46 million after tax, or $0.59 per share) to write down property, plant and equipment values of the Electronic Materials segment to amounts expected to be recovered from future cash flows.

Inventory Valuation

Inventories are stated at cost or market, whichever is less. Actual cost is used to value raw materials and supplies; standard cost, which approximates actual cost, is used to value finished goods and goods in process. Standard costs include direct labor, raw material and manufacturing overhead based on practical capacity. The cost of substantially all United States inventories is determined using the last-in, first-out (LIFO) method, generally reflecting the effects of inflation or deflation on cost of goods sold sooner than other inventory cost methods. The cost of other inventories (approximately 34 percent of all inventories) generally is determined using the first-in, first-out (FIFO) method.

The components of inventories were as follows:

	1986	1985
Finished goods	$ 707	$ 792
Goods in process	225	231
Raw materials and supplies	426	482
Inventories, at FIFO cost	1,358	1,505
Excess of FIFO over LIFO cost	(289)	(408)
Inventories, at LIFO cost	$1,069	$1,097

Inventories at FIFO cost approximate current cost.

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Income Taxes

The components of income before income taxes were:

		1986	1985	1984
	U.S.	$462	$(590)	$442
	Ex-U.S.	174	292	265
Total		$636	$(298)	$707

The components of income tax expense were:

		1986	1985	1984
Current:	Federal	$ 20	$ 44	$ 72
	State	12	13	21
	Ex-U.S.	88	154	56
		120	211	149
Deferred:	Federal	74	(338)	72
	State	13	(21)	3
	Ex-U.S.	(4)	(22)	44
		83	(381)	119
Total		$203	$(170)	$268

The sources of timing differences in the recognition of revenue and expense for tax and financial statement purposes and the tax effect of each were:

	1986	1985	1984
Depreciation, depletion and obsolescence	$ (61)	$ 70	$ 92
Restructuring program	161	(307)	
Pension expense	(10)	(32)	
Intangible drilling and development costs		(98)	11
Other	(7)	(14)	16
Total	$ 83	$(381)	$119

Factors causing the effective tax rate to differ from the federal statutory rate were:

	1986	1985	1984
Federal statutory rate	46%	(46)%	46%
Higher (lower) ex-U.S. tax rates	1	(12)	(3)
Investment and other tax credits	(4)	(9)	(5)
Capital gains benefits	(8)		
Benefits attributable to:			
Export earnings	(3)	(3)	(2)
Puerto Rico operations	(3)	(2)	
Dividends from ex-U.S. subsidiaries	1	9	-
Reversal of prior years' foreign tax credits		8	
Other	2	(2)	2
Effective income tax rate	32%	(57)%	38%

Investment tax credits are recorded as a reduction of income tax expense in the year they reduce the federal income tax liability. Investment tax credits, net of recapture, for 1986-1984 were $15 million, $10 million and $30 million, respectively.

Income taxes have not been provided on $365 million of undistributed earnings of subsidiaries, either because any taxes on dividends would be offset substantially by foreign tax credits or because Monsanto intends to indefinitely reinvest those earnings.

Earnings per Share

Earnings per share were computed using the weighted average number of common and common equivalent shares outstanding each year (77,957,975; 76,995,625 and 80,909,755 in 1986-1984, respectively). Common share equivalents (616,178; 116,247 and 335,979 in 1986-1984, respectively) consist primarily of common stock issuable upon exercise of outstanding stock options. Earnings per share assuming full dilution were not significantly different from the primary amounts.

Supplemental Data

	1986	1985	1984
Raw material and energy costs	$2,023	$2,557	$2,522
Employee compensation and benefits	1,937	1,886	1,739
Current income and other taxes	356	435	363
Rent expense	99	92	80
Technological expenses:			
Research and development	523	470	370
Engineering, commercial development and patent	73	78	76
Total technological expenses	596	548	446
Interest expense:			
Operations	89	97	117
Searle acquisition	126	95	
Less capitalized interest	(14)	(14)	(17)
Net interest expense	201	178	100
Equity in affiliates' income	12	25	18
Currency gains (losses) including equity in affiliates' currency gains and losses	8	(13)	2

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Employee Retirement Benefits

Most Monsanto employees are covered by noncontributory pension plans. Upon retirement, many Monsanto employees also receive other benefits, principally medical and life insurance.

In 1986 Monsanto adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (SFAS No. 87). Information for prior years has not been restated.

The components of pension cost for 1986 were as follows:

	1986
United States plans:	
Service cost (for benefits earned during the year)	$ 56
Interest cost on projected benefit obligation	194
Return on plan assets:	
Actual	(458)
Deferred gain	250
Amortization of unrecognized net gain at adoption of SFAS No. 87	(22)
Ex-U.S. plans	13
Total	$ 33

Pension cost for all plans was $85 million in 1985 and $116 million in 1984.

Pension cost is determined based on years of service and compensation levels. For plans that base benefits on final compensation levels, pension cost for 1986 and 1985 was determined using the projected unit credit method (the entry-age normal method was used for Monsanto's principal plans in 1984). Prior service costs and unrecognized gains and losses are amortized over the estimated future service periods of active employees in the respective plan, ranging generally from 14 to 18 years. Pension plans are funded in accordance with Monsanto's long-range projections of the plans' financial condition, considering benefits earned and expected to be earned in the future, anticipated future returns on pension plan assets and income tax and other regulations. Other post-retirement benefits currently are not funded and are expensed as benefits are paid.

In accordance with SFAS No. 87, the $412 million unrecognized net gain (representing the excess of the fair value of plan assets over the projected benefit obligation at the date of adoption) is being amortized over the average expected future service periods of employees. Also in accordance with SFAS No. 87, the fair value of plan assets was used to calculate the assumed return on plan assets for 1986. These two changes from prior practice were the primary cause for the $52 million decrease in pension expense in 1986 as compared to 1985. This lower pension expense principally benefited the Crop Chemicals segment (approximately $7 million) and the Chemicals segment (approximately $25 million). The decrease in pension expense in 1985 as compared with 1984 was due to updating actuarial assumptions and a change in actuarial cost method for one plan, offset in part by the pension expense of Searle, following the acquisition.

The projected benefit obligation was determined generally using assumed discount rates of 8¼-9 percent for 1986 and 1985. The assumed long-term rates of return on plan assets were generally 8½-9 percent for 1986 and 1985. For those plans that pay benefits based on final compensation levels, the actuarial assumptions generally included overall annual rates of salary increase of 5½-6½ percent.

The 1986-1984 expense recorded for other post-retirement benefits was $26 million, $18 million and $18 million, respectively. For some employee savings plans, employee contributions are matched in part by Monsanto. The 1986-1984 expense recorded for such plans was $35 million, $36 million and $33 million, respectively.

The funded status of Monsanto's pension plans at year-end is presented below.

	1986	1985
Actuarial present value of plan benefits:		
Vested	$2,124	$1,994
Nonvested	187	154
Accumulated benefit obligation	2,311	2,148
Effect of projected future salary increases	303	318
Projected benefit obligation	$2,614	$2,466
Plan assets at fair value	$3,014	$2,672
Excess of plan assets over projected benefit obligation	$ 400	
Less:		
Unrecognized net gain at adoption	412	
Unrecognized 1986 net gain	178	
Accrued pension liability	$ 190	

Projected benefit obligations and plan assets included in the above table for the principal United States plans were approximately $2,483 million and $2,776 million, respectively, at December 31, 1986. Plan assets consist principally of common stocks and United States government and corporate obligations.

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Short-Term Debt and Credit Arrangements

Short-term debt was:

	1986	1985
Notes payable:		
Banks	$107	$ 130
Commercial paper	14	468
Bank overdrafts	130	81
Current portion of long-term debt	138	25
Total	$389	$ 704
Maximum amount of notes payable and bank overdrafts outstanding at any month-end	$611	$1,962
Average notes payable and bank overdrafts outstanding	372	730
Weighted average interest rate during the year	8½%	9%
Weighted average interest rate at December 31	7½%	9%

Certain ex-U.S. subsidiaries have aggregate short-term loan facilities of $266 million, under which loans totaling $107 million were outstanding at December 31, 1986. Interest on these loans is related to various ex-U.S. bank rates. Monsanto's unused short-term loan facilities were $159 million at December 31, 1986.

Long-Term Debt

Long-term debt (exclusive of current maturities) was:

	1986	1985
Industrial development bond obligations, weighted average interest rate of 7½%, due 1988 to 2021	$ 264	$ 264
Commercial paper expected to be refinanced on a long-term basis, weighted average rate of 8¼%		950
Medium-term notes, weighted average interest rate of 7½%, due 1988 to 1990	131	
9¼% Eurodollar notes due 1991	101	
10⅛% notes due 1992	150	149
9⅛% notes due 1996	150	
9⅛% sinking fund debentures due 1996	43	66
8½% sinking fund debentures due 2000	127	127
8¼% sinking fund debentures due 2008	169	169
11⅛% sinking fund debentures due 2015	225	250
Capitalized lease obligations	16	17
Other	254	95
Total	$1,630	$2,087

Maturities and sinking fund requirements on long-term debt are $138 million, $124 million, $129 million, $40 million and $126 million for 1987-1991, respectively.

During 1986, the Company issued $425 million of long-term debt in the United States and ex-U.S. financial markets, and $250 million of medium-term notes in the United States financial markets. Proceeds from these borrowings were used principally to reduce the Company's commercial paper outstanding.

The $3.0 billion bank credit agreement used to finance the acquisition of Searle has been renegotiated and reduced to a $750 million intermediate-term facility, expiring ratably from 1988 to 1993. All of this facility was unused at December 31, 1986. Interest on amounts borrowed under this agreement is at, or at a margin above, the Citibank, N.A. base interest rate, or at a margin above either the rates paid on certificates of deposit or the London interbank offered rate. The credit agreement may also be used to support the issuance of commercial paper.

Covenants under the bank credit agreement restrict maximum borrowings. It is not anticipated that future borrowing needs will be affected by these restrictions.

In November 1985, the Company repaid $168 million principal amount of debentures and notes prior to their scheduled maturity from 1993 to 2008. Because these debentures and notes were repaid at less than face value, the Company recorded an extraordinary net gain of $30 million ($59 million before tax), or $0.40 per share.

Capital Stock

At December 31, 1986, there were 5,101,603 common shares reserved for employee stock options.

In January 1986, the Company's Board of Directors declared a dividend to shareowners consisting of one Common Stock Purchase Right on each outstanding share of the Company's common stock. A right will also be issued with each share of the Company's common stock that becomes outstanding prior to the time the rights become exercisable or expire. If a person or group acquires beneficial ownership of 20 percent or more, or announces a tender offer that would result in beneficial ownership of 30 percent or more, of the Company's outstanding common stock, the rights become exercisable and each right will entitle its holder to purchase one share of the Company's common stock for $150. If Monsanto is acquired in a business combination transaction, each right will entitle its holder to purchase, for $150, common shares of the acquiring company having a market value of $300. Alternatively, if a 20 percent holder were to acquire Monsanto by means of a reverse merger in which Monsanto and its stock survive or were to engage in certain "self-dealing" transactions, each right not owned by the 20 percent holder would entitle its holder to purchase, for $150, common shares of the Company having a market value of $300. The Company can redeem each right for 5 cents at any time prior to its becoming exercisable. The rights expire in 1996. These rights may cause substantial ownership dilution to a person or group who attempts to acquire the Company without approval of the Company's Board of Directors. The rights should not interfere with a business combination transaction that has been approved by the Board of Directors. As of December 31, 1986, 77,659,089 rights were outstanding.

Stock Option Plans

At December 31, 1986, there were 2,484,167 shares under options outstanding for the Company's 1974 and 1984 Management Incentive Plans and the Searle Monsanto Stock Option Plan (Searle Plan) at prices ranging from $26.16 to $79.31 per share. Options for 1,295,094 shares were exercisable at December 31, 1986. During 1986, 583,650 options were granted and 696,734 options, granted at prices ranging from $26.16 to $57.59 per share, were exercised. Under the 1984 Management Incentive Plan and the Searle Plan, 2,617,436 shares remain available for grant. Grants under the Searle Plan are subject to ratification by the Company's shareowners.

Stock appreciation rights (SARs) are authorized to be granted under both the Company's 1974 and 1984 Plans, including retroactive grants for unexercised options. At December 31, 1986, SARs related to options for 675,691 shares were outstanding; of these, 316,697 were exercisable. During 1986, SARs related to options for 100,300 shares were granted and 176,074 shares were exercised.

Commitments and Contingencies

Commitments in connection with uncompleted additions to property and investments in affiliates were approximately $125 million at December 31, 1986. Monsanto was contingently liable as guarantor of bank loans and for discounted customers' receivables totaling approximately $107 million at December 31, 1986.

Monsanto is a party to a number of lawsuits, which it is vigorously defending, arising in the normal course of business. Certain of these actions seek damages in very large amounts. While the results of litigation cannot be predicted with certainty, management believes, based upon the advice of Company counsel, that the final outcome of such litigation will not have a material adverse effect on Monsanto's consolidated financial position.

Segment Information

Certain operating unit segment data and geographic data for 1986-1984 appear on pages 21 and 24, and are integral parts of the accompanying financial statements. The principal product lines included in each operating unit are shown in the operating unit segment data.

Sales between operating units were not significant. Inter-area sales, which are sales from one Monsanto location to another Monsanto location in a different world area, were made on a market price basis. Net sales in 1985 of product lines divested that were included in the Chemicals segment were $645 million.

Certain corporate expenses, primarily those related to the overall management of Monsanto, were not allocated to the operating units or geographic areas. Corporate assets principally include certain miscellaneous receivables and investments.

Inter-area sales by entities in each geographic area were:

	Inter-area Sales (Between Monsanto Entities)		
	1986	1985	1984
United States	$ 527	$ 529	$ 534
Europe-Africa	82	163	207
Canada	4	5	9
Latin America	5	2	6
Asia-Pacific	26	21	33
Inter-area Eliminations	(644)	(720)	(789)
Total consolidated	$ –	$ –	$ –

Following is a reconciliation of ex-U.S. operating income and total assets to Monsanto's equity in the net income and net assets of consolidated ex-U.S. subsidiaries.

	1986	1985	1984
Operating income	$ 165	$ 231	$ 252
Interest expense	(42)	(26)	(53)
Interest income	40	38	36
Other income — net	(16)	(21)	29
Income taxes	(70)	(70)	(108)
Net income of consolidated ex-U.S. subsidiaries	$ 77	$ 152	$ 156
Total operating assets	$1,757	$1,670	$1,312
Total liabilities	855	847	519
Net assets of consolidated ex-U.S. subsidiaries	$ 902	$ 823	$ 793

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FINANCIAL SUMMARY

(Dollars in millions, except per share)	1986[1]	1985[2]	1984	1983[3]	1982[4]
Operating Results					
Net Sales	$6,879	$6,747	$6,691	$6,299	$6,325
Operating Income (Loss)	635	(598)	677	521	479
Income (Loss) Before Extraordinary Gains	433	(128)	439	369	329
Net Income (Loss)	433	(98)	439	402	352
As a Percent of Net Sales	6%	(1)%	7%	6%	6%
As a Percent of Average Shareowners' Equity	12%	(3)%	12%	11%	10%
As a Percent of Average Capital Employed[5]	9%	—%	10%	10%	9%
Earnings per Share					
Before Extraordinary Gains	$ 5.55	$ (1.67)	$ 5.42	$ 4.48	$ 4.10
Net Income (Loss)	5.55	(1.27)	5.42	4.89	4.39
Year-end Financial Position					
Total Assets	$8,269	$8,877	$6,373	$6,427	$6,077
Working Capital	1,092	899	1,395	1,535	1,503
Property, Plant and Equipment					
Gross	$6,326	$6,840	$6,919	$6,639	$6,530
Net	2,913	3,034	3,374	3,284	3,313
Long-Term Debt	$1,630	$2,087	$ 824	$ 937	$1,003
Shareowners' Equity	3,781	3,407	3,634	3,667	3,490
Current Ratio	1.6	1.4	2.2	2.3	2.6
Percent of Total Debt to Total Capitalization	35%	45%	23%	24%	25%
Other Data					
Property, Plant and Equipment Additions	$ 520	$ 645	$ 614	$ 560	$ 673
Depreciation and Amortization	780	599	503	523	439
Interest Expense	201	178	100	96	82
Research and Development Expenses	523	470	370	290	264
Income Taxes	203	(170)	268	201	172
Stock Price High	$ 81½	$ 55⅜	$ 53⅞	$ 58⅛	$ 44½
Low	44¾	40⅝	40⅝	37⅛	28¼
Price/Earnings Ratio on Year-end Stock Price	14	—	8	11	9
Per Common Share					
Dividends	$ 2.575	$ 2.45	$ 2.25	$ 2.075	$ 1.975
Shareowners' Equity	48.69	44.38	46.43	44.83	42.99
Common Shareowners	70,367	72,081	71,343	69,787	75,943
Common Shares Outstanding (in millions)	78	77	78	82	81
Employees	51,703	56,103	50,754	48,835	52,199

[1] Net income for 1986 includes net restructuring income of $97 million ($1.25 per share), a write-down for reduced asset values in the electronic-grade silicon wafer business of $46 million ($0.59 per share), and reduced pension expense from adopting the requirements of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," of $25 million ($0.32 per share).

[2] Net loss for 1985 includes net restructuring expense of $542 million ($7.04 per share), the gain from the sale of the oil and gas operations of $201 million ($2.61 per share) and an extraordinary gain of $30 million ($0.40 per share) from repayment of debt.

[3] Net income for 1983 includes extraordinary tax benefits of $33 million ($0.41 per share) from the utilization of ex-U.S. loss carryforwards.

[4] Net income for 1982 includes an extraordinary gain of $23 million ($0.29 per share) from an exchange of debt for common shares.

[5] Capital employed is the sum of short-term debt, long-term debt and shareowners' equity. The beginning of the year and the end of the year capital employed are averaged and divided into net income after adding back the after-tax effect of interest costs.

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Chief Executive Officer
Monsanto Company

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King of Prussia, Pennsylvania
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Schulco, Inc.

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San Francisco
Director

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Montpelier, Vermont
Chairman and
Chief Executive Officer
National Life Insurance
Company

John W. Hanley
Palm City, Florida
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Chief Executive Officer
Monsanto Company

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Tufts University

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Corporation
(a subsidiary of Fluor
Corporation)

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Citicorp and Citibank, N.A.

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Seattle
Attorney
Perkins Coie

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College Park, Maryland
Chancellor
University of Maryland
at College Park

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U.S. Navy, Retired
McLean, Virginia
Lecturer and Writer

Margaret Bush Wilson
St. Louis
Attorney
Wilson, Smith and Seymour

Advisory Directors:
Robert L. Berra
Harold J. Corbett
Robert G. Potter
Nicholas L. Reding
Dr. Howard A. Schneiderman
Francis A. Stroble

until March 31, 1987; Chairman and Chief Executive Officer, R.S.I. Corporation, effective April 1, 1987

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Joan T. Bok
Buck Mickel
William D. Ruckelshaus
Dr. John B. Slaughter
Margaret Bush Wilson

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Nicholas L. Reding

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Harold J. Corbett
Dr. Howard A. Schneiderman

Senior Vice President and Chief Financial Officer
Francis A. Stroble

Senior Vice President, Secretary and General Counsel
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Thomas L. Gossage
Robert G. Potter

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Stewart D. Daniels
Dr. S. Allen Heininger
Martin J. Kallen
Thomas H. Lafferre
Richard A. Overton
James H. Senger
David L. Sliney

Vice President and Controller
Lawrence B. Skatoff

Vice President and Treasurer
B. Clare Harris

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SHAREOWNER INFORMATION

Annual Meeting
The next Annual Meeting of the shareowners of Monsanto Company will be held at 1:45 p.m., Friday, April 24, 1987, in K Building at the Company's World Headquarters, 800 N. Lindbergh Blvd., St. Louis, Missouri. A formal notice of the meeting, together with a proxy statement, is being mailed to each shareowner.

10-K Report, Corporate Data Book and Investor News
A copy of Monsanto Company's 1986 Form 10-K Report filed with the Securities and Exchange Commission; 1986 Corporate Data Book, which contains additional information relating to Monsanto; and Investor News can be obtained by writing to:

Investor Relations Department
Monsanto Company
800 N. Lindbergh Blvd.
St. Louis, Missouri 63167

Stock Symbol = MTC

Stock Exchanges/Bourses

United States:
New York
Chicago (options)

Europe:
Amsterdam
Brussels
Frankfurt
Geneva
London
Paris
Zurich

Transfer Agent and Registrar
The First National Bank of Boston
Box 644
Boston, Massachusetts
02102

The photographs on pages 6 through 14 include the following employees:
Page 6: William Alston, The NutraSweet Company. Page 9: (clockwise, from top center) Jim Altemus, Lori Fisher and Alvaro Canizares, all Monsanto Agricultural Company. Page 10: (bottom) John Washburn, Monsanto Agricultural Company. Page 13: (top) Tom Landthorn, G.D. Searle & Co.; (bottom) Jim Young, Monsanto Chemical Company. Page 14: (top) Gary Stanulus, Fisher Controls International, Inc.

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MONSANTO COMPANY
800 North Lindbergh Boulevard
St. Louis, Missouri 63167

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