

Monsanto 1985 Annual Report

DSW 021632

STLCOPCB4006941

Operational Highlights

Net loss in 1985 includes net restructuring cost of \$341 million (\$4.43 per share) and an extraordinary income item of \$30 million (\$0.40 per share). Net income in 1983 includes an extraordinary income item of \$33 million (\$0.41 per share).

(Dollars in millions, except per share)	1985	1984	1983
Net Sales	\$6,747	\$6,691	\$6,299
Net Income (Loss)	\$ (98)	\$ 439	\$ 402
Per Common Share:			
Net Income (Loss)	\$ (1.27)	\$ 5.42	\$ 4.89
Dividends	2.45	2.25	2.075
Shareowners' Equity	44.38	46.43	44.83
Depreciation and Amortization	\$ 599	\$ 503	\$ 523
Funds Provided From Operations	\$ 889	\$1,008	\$ 948
Research and Development Expenses	\$ 470	\$ 370	\$ 290
Percent of Long-Term Debt to Total Capitalization	38%	18%	20%

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Monsanto Company and Subsidiaries

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Monsanto Company meets customer needs by providing high-quality chemical and agricultural products, pharmaceuticals, low-calorie sweeteners, industrial process controls, man-made fibers and electronic materials. We are growing in these markets by using technology to develop new products which deliver added value to our customers and society. At the same time, our 56,000 employees are committed to the highest standards of conduct in the more than 100 countries where we do business.

Monsanto trademarks the Annual Report are identified by italics.

1985 Sales by Operating Group
Dollars in Millions

**Includes Seale for the five month period August-December.*

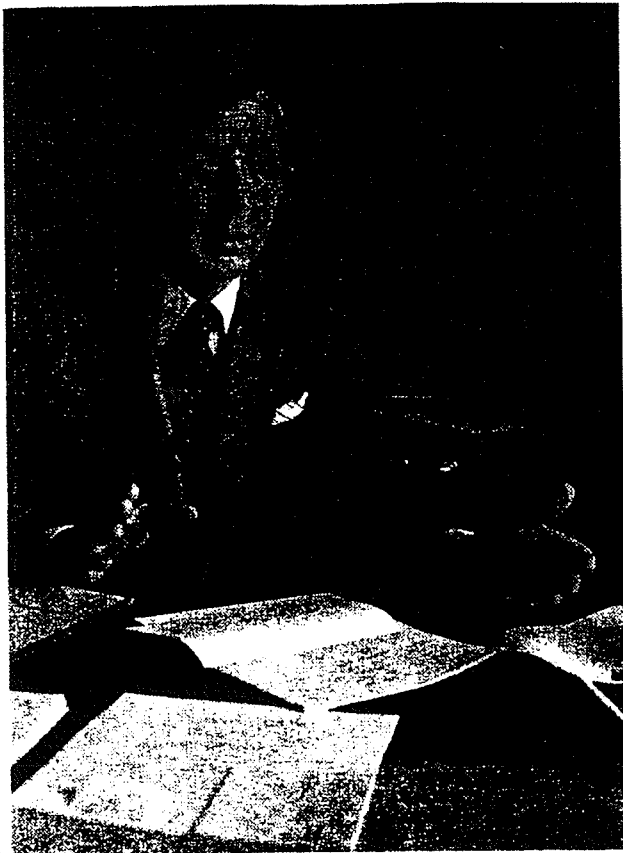
Agricultural Products	17%
\$1,152	
Chemicals, Fibers, Plastics	60%
\$4,051	
Electronic Materials	2%
\$337	
Fiber Controls	10%
\$652	
NutraSweet*	5%
\$317	
Pharmaceuticals*	4%
\$262	
Other	2%
\$176	
Total	100%
\$6,747	

1985 Worldwide Sales
Dollars in Millions

United States	66%
\$4,451	
Europe-Asia	14%
\$1,075	
Canada	5%
\$310	
Latin America	5%
\$360	
Asia-Pacific	8%
\$553	
Total	100%
\$6,747	

1985 Sales to Major Markets
Dollars in Millions

Agriculture	18%
\$1,211	
Communications and Home Furnishings	14%
\$1,044	
Motor Vehicles	11%
\$754	
Capital Equipment	13%
\$868	
Pharmaceuticals	5%
\$358	
Food	6%
\$431	
Personal Products	15%
\$1,040	
Other Industries	16%
\$1,041	
Total	100%
\$6,747	



Richard J. Mahoney,
President and
Chief Executive Officer

Nineteen eighty-five was *the* pivotal year in recent Company history. The decisions taken and carried out will influence the Company's fortunes for years to come.

Consider this:

■ We virtually completed the transformation of our chemicals, fibers and plastics businesses from heavy dominance by commodity petrochemicals just a few short years ago to a higher-performance, less-cyclical mix. Our future will be driven far more by our own technology, marketing and manufacturing than by broad, uncontrollable external conditions. This \$3-plus billion unit, named Monsanto Chemical Company, is smaller in sales and staffing than its predecessors, but more profitable, and in 1986 it would rank just over

No. 100 in the *Fortune* 500.

■ We acquired G. D. Searle & Co., capping a decade-long effort to enter the pharmaceutical business. The combined Searle/Monsanto pharmaceutical strengths — based on chemistry and biotechnology — have the potential to stand among the very best pharmaceutical companies in the world. We're investing heavily in leadership-quality research and development. Because we're plowing cash back into the business in our commitment to the future, current earnings are non-existent — but the rewards look very promising indeed.

■ We added an extraordinary product to the corporation — *NutraSweet* brand sweetener. Sales and earnings gains from The NutraSweet Company subsidiary are impressive, and we're working toward a secure position after U.S. patents expire in 1992. We expect this unique artificial sweetener will surprise a lot of people with its earning power and durability. *NutraSweet* is one of the early opportunities for the Searle/Monsanto merger to yield real synergy, with Monsanto's engineering know-how now being applied to lower the cost of production.

■ Monsanto's first biotechnology product, targeted to improve milk productivity in cows, is on schedule for market entry in 1988. Development expenses are very large, but so is the opportunity for profit — this could well be a worldwide market of more than \$1 billion. We've also made rapid progress on moving another promising biotechnology product out of our labs. Atrial peptides, which control high blood pressure, are now into the pharmaceutical development process at Searle.

■ *PRōVOX* control room instruments from Fisher passed one of our major competitors in sales in this important growth sector. *PRōVOX* electronic instrumentation makes it possible for manufacturers to achieve plantwide, integrated process control, providing cost reduction and quality improvements — critically important needs even in these times of low capital spending for new capacity.

■ Across the Company, we made dramatic improvements in our cost struc-

ture for 1986 and beyond. In doing so, we treated our employees in a responsible manner, offering generous early retirement or job search skills to those who were displaced.

■ We are very proud of the strides achieved in making a safe company even safer. A special task force spearheaded a companywide 50 percent reduction in the storage of high-hazard materials and further strengthened the safety of plant operations and the shipment of raw materials and products.

We were able to get these things done by carefully balancing borrowed cash with money from the sale of assets. We sold our oil and gas business just before the bottom fell out of the price of crude. Searle's consumer products business and our Seal Sands plant in the United Kingdom were no longer critical to our strategies and were worth more in the hands of others. They were sold at an attractive value to our shareowners.

It is a fact that today we are more leveraged, but our ability to generate cash is impressive and means we can both service our debt and reduce it to targeted levels over the next few years. We're not as flush with cash as we once were, but we're far more flush with opportunities and we have the total resources to capitalize on them.

We also had some disappointments in 1985:

■ Our long-standing promise to deliver profits in electronic-grade silicon wafers was derailed by the worst recession in the U.S. semiconductor industry's history. We'll make no rosy forecast (as we did last year) except to say there is evidence that business will be better, and all the fundamentals are in place. We've lowered our break-even point in silicon to about 50 percent of plant capacity, but that didn't matter much when we ran a good part of 1985 at 25 percent. We need no new investment to turn this business around — just some orders from the overdue recovery of the world semiconductor market.

■ The U.S. agricultural economy has deteriorated due in large measure to disappearance of export markets. As usual, Washington's remedy is heavily weighted to

reducing production rather than supporting global competitiveness for one of America's premier high technology industries. Elsewhere in the agricultural world, we're doing satisfactorily, but the reduced U.S. corn and soybean acres will be missed, especially for *Lasso* herbicide. We've intensified our effort to move *Roundup* herbicide into new uses so it can continue its worldwide growth. We're working hard to get the agricultural products earnings engine revved up again as we await R&D products now in the pipeline.

■ The U.S. industrial economy — that part that makes non-military goods — is still on hold. We expect the cheaper dollar to provide some relief from the devastation of imports, but this is coming slowly. Even if the softening dollar helps on exports, the duration of the dollar's prior strength encouraged a significant move from opportunistic imports to a more permanent kind. Coping with this requires the most careful market segmentation and competitive assessment possible. Unfortunately, we and our customers carry a lot of "made in Washington" baggage in the competitive fray — regulatory, litigation and other costs which many of our international competitors don't face — but it's our job to deal with these realities, and we will.

During the year, we quite often saw outside reports on Monsanto's positive steps for the future characterized in one form or another as "Good strategic moves — wait and see."

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 will, however, continue to make moves that provide a *durable* result. The "Quick Stock Fix" scenario has a siren song appeal: liquidate everything in sight, decimate research, buy in shares and listen to the applause from the *then* shareowners. But next year this resulting dull, no-growth, uninteresting stock would soon be dumped in favor of the newest "asset play."

Instead, we have a view of somewhat different stakeholders, those with 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. We finished 1984 at 12 percent, and 1985 was lower than that based on continuing operations. Our past product mix could not get us there. But now we have that opportunity. Our restructured product mix can get us there *arithmetically* 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 highly desirable neighbor.

The job of the Board of Directors and your management is to serve each of these groups. We have a clear view of the company we intend to be, and we're committed to those actions which will get us to our goals. The rewards are there for all our stakeholders.

Richard J. Mahoney

Richard J. Mahoney
President and Chief Executive Officer*

March 5, 1986

Retiring Chairman
Dr. Louis Fernandez

Dr. Louis Fernandez retires April 1 as Chairman of the Board of Directors for Monsanto Company, completing 37 years of outstanding service and leadership to the Company. When he joined Monsanto in 1949, Dr. Fernandez entered an industry that was just coming to grips with the technological revolution in petrochemicals. He understood the magic of that technology, and he helped bring it to the world from a wide variety of executive positions. His skills, advice and counsel were invaluable to the growth of Monsanto and to the planning and implementing of the new directions it is now taking. Equally impor-



tant, he helped coach and shape outstanding managers at every level in Monsanto.

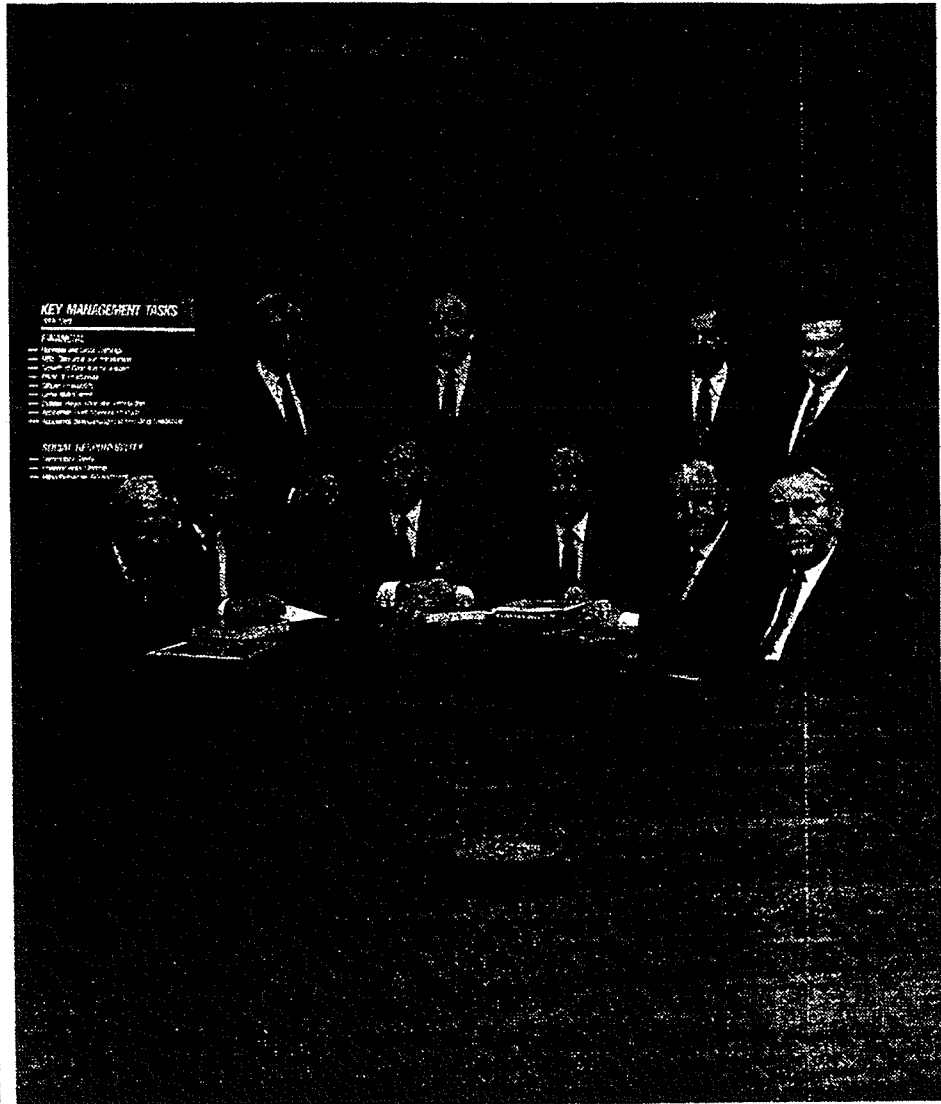
Those are proud accomplishments, but there is more. During the past decade, Dr. Fernandez became a sensitive and effective leader for the chemical industry, particularly on environmental issues. He understands the public's concerns and knows that they must be dealt with openly and honestly. He helped make Monsanto managers advocates of cooperation rather than confrontation on environmental issues, and the Company has benefited from that attitude.

Monsanto is a better company because of Dr. Fernandez. That is a legacy of which he can be proud.

*Effective April 1, 1986,
Mr. Mahoney becomes
Chairman of the
Board and Chief
Executive Officer

Monsanto Company has restructured to achieve its strategic goals and better serve its many stakeholders. Recent acquisitions and discoveries have added exciting new opportunities to its traditional strengths and markets. Nevertheless, challenges will face the Company in the years ahead and Monsanto is fully committed to meeting them head on. Results will be delivered by Monsanto's strong management team through the six operating companies and research efforts described in the following pages.

The Executive Management Committee which will guide Monsanto in the years ahead includes: left to right, Robert L. Berra, Harold J. Corbett, Francis J. Fitzgerald (standing), Richard J. Mahoney, Earle H. Harbison, Jr. (standing), Dr. S. Allen Heiminger, Robert G. Potter (standing), Nicholas L. Reding (standing), Dr. Howard A. Schneiderman, Francis A. Stroble.



Monsanto Agricultural Company brings together high technology chemicals and products in plant and animal sciences to serve agricultural and related industries everywhere in the world.

It was a tough year in 1985 for agricultural businesses. Sales and operating income were lower than in 1984.

Lasso herbicide is primarily a U.S. business, and the recession in the nation's farm economy hurt sales in major corn and soybean markets. That was the largest single factor in the disappointing results.

Landmaster herbicide successfully applies post-emergent weed control technology to the reduced tillage needs of small grain growers.



Roundup herbicide, by comparison, is more of an international business, with hundreds of uses in more than 100 countries. Sales in the United States were affected by the farm economy, but business in other world areas, particularly northern Latin America, Canada and Western Europe, was relatively strong. The use of *Roundup* for industrial, forestry and home and garden markets continued to grow. Overall, however, sales of *Roundup* were marginally lower, though usage was higher, as inventories were reduced.

Avadex BW herbicide, used primarily to control weeds in wheat and small grains, had a good year, with sales gains from outside the United States.

During 1985, Monsanto Agricultural Company (MAC) introduced *Limit* turf regulator in the northeast United States for commercial markets such as golf courses, highway rights-of-way and cemeteries. It reduces the growth of cool season grasses, allowing fewer mowings and more efficient property management.

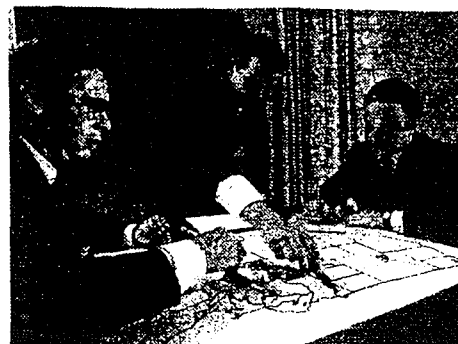
In other areas, sales of *Alimet* liquid feed supplement for poultry benefited from the company's low-cost manufacturing position and a price increase was put in place late in the year. In addition, proprietary varieties of soybean and hybrid wheat seeds continued to be well received by U.S. farmers.

"It was a difficult year," said Nicholas L. Reding, Monsanto Executive Vice President and President of MAC. "Forming a single agricultural company from three former units isn't a dramatic change. We are still in the same businesses — agricultural chemicals, animal products and seeds. But bringing them together helps us plan for challenging economic and competitive conditions. Our strategy is set for each major business."

Crop Chemicals

MAC's large crop chemical businesses remain the foundation of the new company. Faced with a depressed farm economy in the U.S. and growing competition worldwide, the job of MAC is to sustain the flow of earnings from *Lasso* and *Roundup*, while developing new

Monsanto Agricultural Company President Nicholas L. Reding (center) plans business strategies with colleagues.



products.

For *Lasso*, that means retaining its position as the premier corn and soybean herbicide. There are compelling economic reasons for farmers to use *Lasso* in its various forms. On-the-farm tests show that using *Lasso* helps improve revenues through better weed control and less crop stress, which increase yields. In reduced tillage, farmers leave crop residues in the field after harvest. It conserves moisture, helps control erosion and reduces the number of tillage trips across a field, thus saving time and fuel. With the development of effective herbicides like *Lasso Micro-Tech*, reduced tillage is becoming cost-effective and popular with farmers around the world.

During 1985, the U.S. Environmental Protection Agency (EPA) initiated a Special Review of *Lasso* herbicide. Tests submitted to EPA by Monsanto for the agency's standard re-registration process showed that laboratory rats fed high levels of alachlor, the active ingredient in *Lasso*, daily for most of their lives developed tumors. There is no evidence that alachlor causes tumors in humans, but as a result, EPA began a Special Review to examine all health, safety and benefits data on *Lasso*. That review should continue through 1986. MAC remains convinced that *Lasso* can be used safely, and the scientific data support the product's continued registration.

Also during the year, French authorities reviewed the same issues and reaffirmed their decision that *Lasso* should continue to be registered. In Canada, a decision by the Minister of Agriculture to cancel *Lasso* registration has been

Lasso Micro-Tech herbicide television commercials help farmers visualize this new technology—billions of microcapsules which penetrate through stubble in minimum tillage.



appealed by Monsanto, and a special review panel has been established as provided for by Canadian law. No significant effect on operating results is expected from these reviews.

Continuing the growth of *Roundup* herbicide is a second element in the agricultural chemical strategy. Since its introduction in 1974, *Roundup* has been one of the most successful herbicides ever developed. It has been accepted by farmers for controlling difficult weeds, by forestry professionals as a management tool and by industrial and highway maintenance departments as a cost-saving herbicide. Monsanto will build on that success.

"We're doing that by entering new markets and by fine-tuning the formulation for new uses," Mr. Reding said. "*Landmaster* herbicide, a mixture using the active ingredient in *Roundup*, was introduced in 1985 to U.S. wheat growers."

Landmaster is especially beneficial in reduced tillage applications for dryland wheat and small grains. *Landmaster* joins many other MAC specialized mixtures developed to meet local needs, such as for wheat in Australia, vineyards in France and plantations in Malaysia.

"We've also reduced prices for *Roundup* in the United States," Mr. Reding said. "We expect this to open new markets



while it helps farmers by reducing costs."

An important part of the strategy is continuing growth in international markets for existing products. For example, trial programs testing the effectiveness of *Roundup*, *Lasso* and other agricultural chemicals on farms in the Soviet Union and the People's Republic of China increased in 1985.

The search for new agricultural



Basic research into the fundamental nature of plants is aimed at creating exciting new products for farmers.

Improving agricultural productivity through better seeds is an important part of our future — including research going on at Jacob Hartz Seed Co., Inc., part of HybriTech Seed International, Inc.

chemicals also has become more intense. "We're casting a wider net for new products," Mr. Reding said. "MAC has the finest worldwide marketing, sales and product development organization in the industry, and we intend to keep it busy."

The company is investigating licensing and acquisition opportunities around the world. MAC laboratories are looking aggressively for new herbicides and disease control products. A new class of chemicals looks promising. And, MAC is developing ways to speed up the screening and testing process for new products, and has built in tougher research checkpoints to identify potential products more quickly.

Animal Sciences

While crop chemicals remain the largest product segment in MAC, new products in animal sciences have potential for growth and profitability. The most immediate task here is to commercialize bovine somatotropin, a protein produced through genetic engineering that increases the efficiency of milk production in dairy cattle. Field trials are under way now on this research product, and MAC has established a team of research, development and marketing people to commercialize it as soon as possible after regulatory approval.

"We're also pursuing a broad program based on biotechnology to develop other products to improve animal productivity," Mr. Reding said. "They are aimed at reducing costs for the producer — which in turn means stabilizing or cutting the costs of meat, milk and eggs for consumers."

Plant Sciences

Two efforts are under way in plant sciences. One is an ongoing business, HybriTech Seed International, Inc., which markets hybrid wheat seeds and proprietary soybean seeds in the United States and is developing hybrid wheat seeds in France. In wheat, research is under way to enhance hybrid seed production through chemical techniques. In soybeans, the Jacob Hartz Seed Co., Inc. continues to develop high-performing seed and food grade varieties. They introduced several



new lines in 1985.

The second area involves fundamental work in Monsanto's corporate research laboratories using biotechnology to develop more productive crop plants. Short-term, the goal is to continue developing improved proprietary seeds for existing markets. Longer-term, the goal is to use new technology in the seed industry. This might include plants that produce more protein, supply their own fertilizer, grow in dry or cold conditions or protect themselves against pests. Work also continues on developing microbes that produce natural pesticides for protecting plants.

Economic Outlook

The economic outlook for agricultural markets is mixed. Much of the farm economy in the United States is depressed and probably will stay that way for some time. For 1986, we expect only modest growth due to uncertainty surrounding the U.S. government's farm programs, reduced

Monsanto products are developed for effectiveness under regional conditions, as at Monsanto's Kawasaki Research Station in Japan.



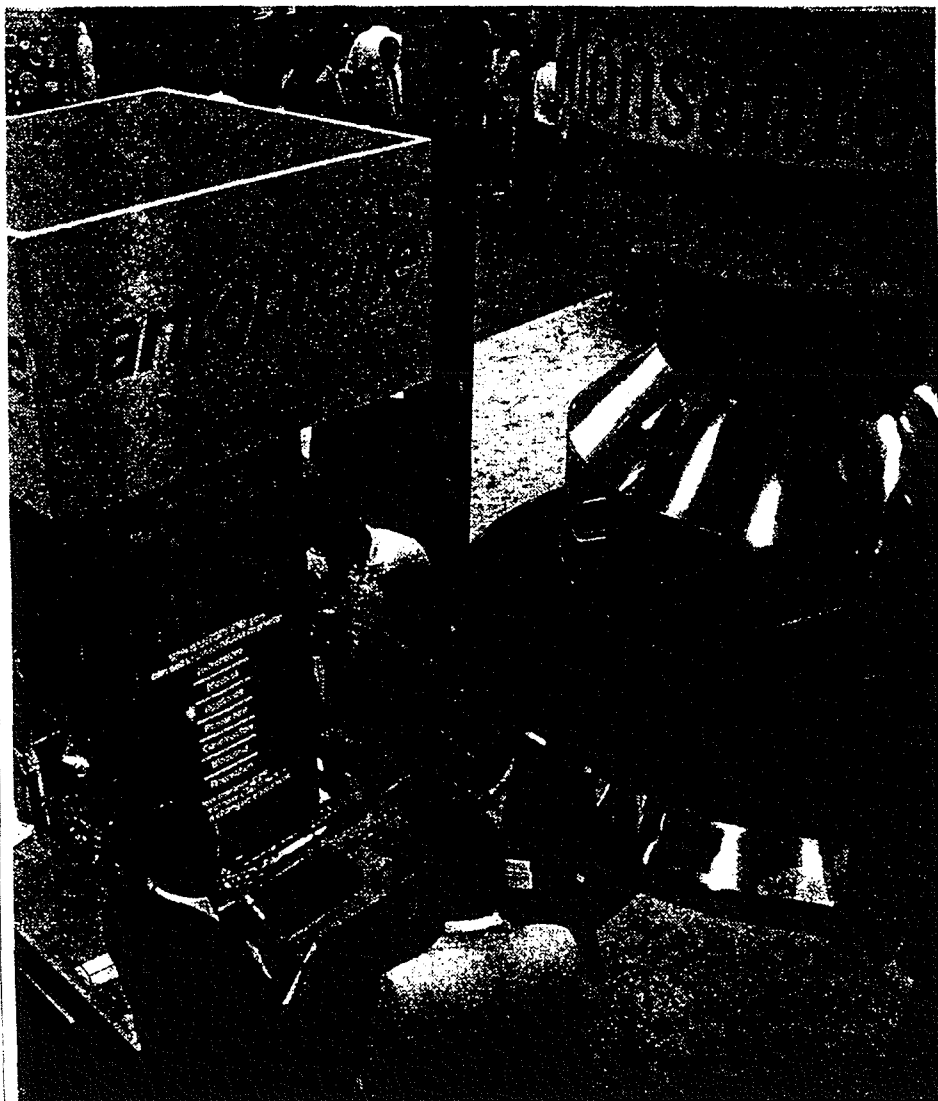
plantings, continued depressed commodity prices and continuing fluctuations in credit/currency conditions worldwide. Other world areas, including the Eastern bloc nations and the People's Republic of China, have growth potential.

"Everywhere, the emphasis is on efficient production," said Mr. Reding. "Our products are aimed at helping improve that efficiency, particularly during difficult times. And in line with this commitment, we will continue to speak out for agriculture — supporting education and improved government policies and programs which help farmers. Our fortunes are tied to theirs, and we intend to help them be successful."

"A strong company like MAC can manage its way through the times ahead and continue to bring new and needed technology to the market. That gives us a decided edge now and for the future."

On January 1, 1986, Monsanto reaffirmed the importance of its chemical heritage. Monsanto Chemical Company (MCC) joined the Company's strongest chemicals, plastics and fibers businesses into a \$3-plus billion international organization. It was put together carefully with a wide range of successful products and with the resources to build on technology and market strengths for new products in the future. MCC's goal is to bring to its many markets superior products that offer higher value to its customers.

Santoprene thermoplastic rubber and plastics products are aggressively presented at a trade show.



Adding value to chemical products in innovative ways is the key to MCC's success.

"To do this, the company must define its markets, differentiate the performance of its products from competition and become the most reliable supplier at the lowest cost in the marketplace," said Francis J. Fitzgerald, Monsanto Chemical Company President.*

During the rest of the decade, MCC is expected to contribute a large percentage of total corporate profits. The company is built around a less cyclical, less commodity-dominated product mix and a steady flow of new marketing opportunities from products and services that are expected to drive growth through the 1990s and beyond. The future of the combined Monsanto Chemical Company businesses is brighter now than at any time in the last 20 years.

Major Product Families

Monsanto Chemical Company has ongoing businesses which are expected to turn in sales of \$3-plus billion in 1986, worldwide. Approximately \$2 billion of that will come from healthy product families including carpet staple, detergent materials, *Lustran* plastics, rubber chemicals and *Saflex* interlayer. These product families are supplemented by a healthy specialty chemicals business as well as a group of other smaller businesses, making it clear that MCC has a solid product foundation for the future.

Monsanto is the largest U.S. producer of nylon staple fibers for carpet. Carpets made from Monsanto fibers are eligible for inclusion in the program for *Wear-Dated* textile products. This means that if the products don't perform in accordance with Monsanto's warranty, Monsanto replaces them. MCC carpet fiber sales are supported with some of the most innovative marketing programs in the textile industry.

The acquisition of the Witfield Divi-

*Effective April 1, 1986, Mr. Fitzgerald becomes President and Chief Operating Officer of Monsanto. Mr. Robert G. Potter becomes President of MCC on that date.



Saflex plastic interlayer, found in laminated glass, affords this financial institution improved safety for its customers.

Robert G. Potter,
President, Monsanto
Chemical Company
(effective April 1)

sion from Witco Corporation in 1985 reinforced Monsanto's position in the detergent industry. The Witfield unit, which extended Monsanto's product line and broadened its overall product mix, produces surfactant intermediates for detergent and specialty applications.

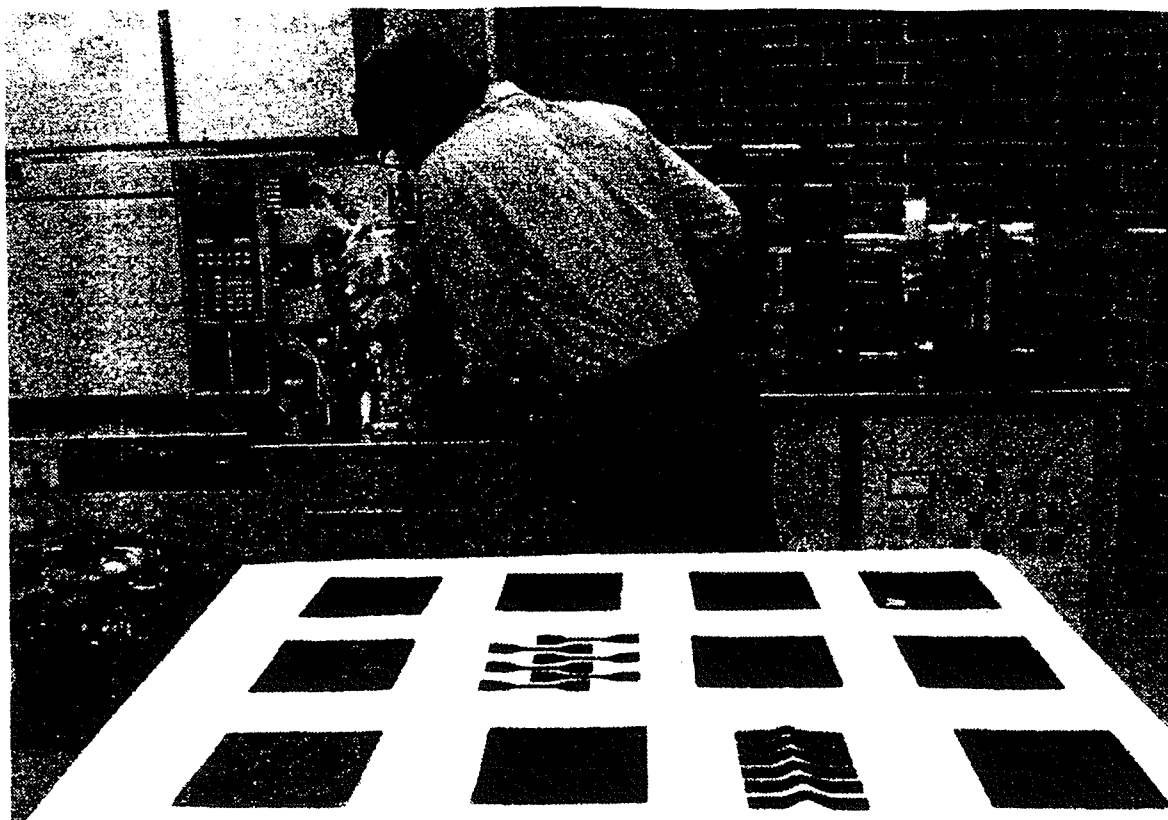
Lustran is Monsanto's leading entry in high-performance plastics. There is a great deal of growth potential in this product as manufacturers find more uses for *Lustran* in appliances, auto parts and consumer products. Other major plastics products include *Vydyne* nylon, *Cadon* engineering thermoplastic and a new line of polymer alloy engineering thermoplastics. MCC is continuing to invest in the future of its plastics businesses. A new plastics customer applications laboratory soon will be under construction in the northeastern United States, and plant capacity expansions are under way in Belgium and Japan. In addition, modernization programs have been completed at plants in Mexico and Canada.

Monsanto's rubber chemicals business continued to lead the industry in worldwide sales in 1985. In addition, the rubber chemicals division completed



an expansion at its Akron, Ohio marketing and research center. Current research programs are being aimed at developing the lowest cost chemical processes and new proprietary chemicals and instruments for the rubber industry.

Saflex plastic interlayer for automotive and architectural glass continues to be an industry leader in worldwide markets. New markets are opening as architects make more use of laminated glass in homes and offices. *Saflex* offers



improved safety, security, acoustical and energy saving properties. Sales for industrial and residential construction offer growth potential greater than the automotive market.

Another group of businesses provides about one-third of MCC's sales. Key among these are specialty chemicals which continued to perform well in established positions. These include the *ACL* family of dry chlorine products which is a leader among disinfectants for swimming pools. Other specialty products are analgesics and fire resistant and heat transfer functional fluids.

Profitable specialty resins include high-performance, pressure-sensitive adhesives and other MCC resins used in industrial coatings such as paints, high-gloss printing varnishes and reflective traffic sign coatings.

MCC's *Acrilan* acrylic fiber gained significant market share in 1985, and is increasingly concentrated on high value

Monsanto is setting new high standards for quality control and specifications at its recently expanded rubber chemicals research center in Akron, Ohio.

An Info-Share seminar in Los Angeles, one of ten given in 1985, brings detergent materials customers together with Monsanto technology, customer service and public policy experts.



specialty products. *Acrilan* and other trademarked products include new fibers for socks, sweatsuits, upholstery, craft yarn and sweaters. A growing number of leading mills and retailers offer *Wear-Dated* products, demonstrating high consumer recognition of the brand. Nylon filament, with a variety of industrial and carpet end uses, continues to be an integral part of the fibers division.

In addition, MCC maintained its world leadership position in acetic acid and maleic anhydride technologies. MCC's other businesses include fabricated products, engineered products and Enviro-Chem Systems, Inc.

New Products

MCC is commercializing innovative new products. *Santoprene* thermoplastic rubber, for example, offers plastic's lower manufacturing costs and rubber's higher performance in hose, under-the-hood automotive products, wire and cable, sheeting



As part of a tour of the Pensacola Technical Center, commercial interior designers examine nylon carpet staple fibers.

and glazing gaskets. Certain grades of *Santoprene* have been accepted by Underwriters Laboratories, Inc. and the Mine Safety and Health Administration, while others can be used in accordance with U.S. Food and Drug Administration regulations. A variation of *Santoprene* introduced this year, *Geolast* thermoplastic elastomer, combines the oil resistance of rubber with the economics and processing ease of thermoplastics.

Technology

Technologies offering substantial opportunity for commercial success are being funded in 1986 at \$125 million.

MCC has a three-fold strategy for technology. First, scientists and engineers are working to shorten product development time — the goal is five to seven years from discovery to commercialization. Second, MCC is increasing emphasis on the acquisition of technology from outside the company. Finally, it is expanding

collaborative research with Monsanto customers in each of the major product families.

"We will be able to accelerate the development of new products by building on existing technologies and finding new ways to apply them," said Mr. Fitzgerald. "We're putting less emphasis on building new processes and more emphasis on extending existing technology to provide a broader product mix. Acquiring new technologies, rather than developing them ourselves, will be an option we'll pursue."

MCC technology programs will be less capital intensive. The focus will be on the development of products like *Santoprene* thermoplastic rubber — products which are patented, meet market needs and whose value is in their function and performance.

For example, Monsanto has developed sophisticated new technologies to combine polymers that ordinarily are incompatible, such as ABS plastic and

nylon. Like metal alloys, these combinations perform better than their components would alone. The ABS-nylon alloy is among the toughest thermoplastics known, and also performs well at high temperatures. As a housing for power tools or lawn and garden equipment, it can stand up to motor heat, vibration and rough handling.

Monsanto already has a solid record in amino resin cross-linkers, which help increase the durability and gloss of paints and other coatings for automobiles, appliances, metal cans and other items. A newly developed family of cross-linkers reduces solvent emissions and allows the coating to cure at lower temperatures. Reduced emissions are a major goal of the coating industry and lower temperature curing conserves energy and allows plastic to be substituted for metal, also reducing weight.

■ Positive Public Image

"As a chemical producer, Monsanto has been leaving the low-margin commodities to focus on higher-value products," Mr. Fitzgerald said.

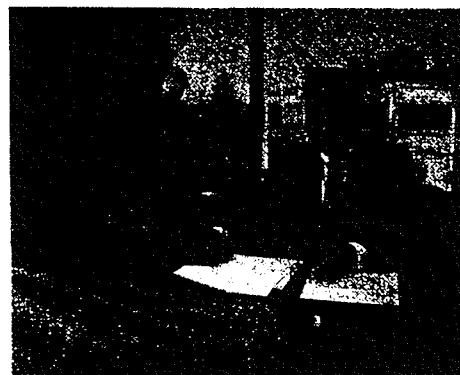
"Beyond the business advantages, this change means we will no longer be dealing with some high-hazard products and will be transporting less hazardous raw materials. In addition, we will continue to take the lead in environmental safety and open communications with the public," he said. "MCC inherited a good safety record and a tradition of high level performance. The new company's challenge is to maintain and improve on it," he said.

"MCC's goal is leadership in both financial results and corporate citizenship. MCC's performance will be measured by Monsanto's investors, our customers, our employees and our neighbors."

James E. Springgate,
President,
Monsanto Electronic
Materials Company

Monsanto Electronic Materials Company makes high-quality silicon wafers, the substrate for semiconductors used in computers and other electronic products. The company is among the world's largest suppliers of this material.

Markets for silicon were severely depressed in 1985, particularly in the United States. Customers were working off huge inventories of semiconductors built up in prior years. In addition, semiconductor imports into the United States depressed markets for U.S. producers. As a result, silicon sales were extremely weak and the company lost money for the year. Looking ahead, there are signs that the semiconductor market should improve in 1986, and Monsanto expects sales to benefit.



Monsanto's overall strategy of becoming an international producer of high-quality silicon has not changed. There is also increased emphasis on cost control. The break-even point in manufacturing has been dramatically lowered to about 50 percent of capacity, allowing quicker financial improvement when markets improve. New facilities in Japan, Korea and the United Kingdom are on schedule for completion in 1986, bringing production closer to worldwide markets.

Fisher Controls International, Inc. is a leading worldwide manufacturer and supplier of process control equipment and systems for the process and energy industries. Fisher sells more than equipment. It sells innovative solutions to customers' process control needs. Fisher's sophisticated valves, regulators, measurement instrumentation and control systems are designed, manufactured and sold through an expanding international network of research, manufacturing, sales and customer service facilities.

Robert E. Flynn, Chairman and Chief Executive Officer, Fisher Controls International, Inc.

Fisher overcame sluggish demand in some markets to outpace its competitors in 1985. PRōVOX distributed control instrumentation led the way in that success, growing at twice the market rate since it was introduced five years ago. PRōVOX is the cornerstone of Fisher's strategic positioning as a supplier of solutions for integrated process control.

Product introductions continued in 1985 with new valves and measurement instrumentation, such as a portable level detector that can measure levels of liquids and solids from outside containers.

PRōVOX technology also moved forward rapidly with the development of software and interface packages targeted to meet customers' needs in small systems markets. These additions expand the already extensive PRōVOX line. They are attractive to customers because they increase the capability of existing systems, give more price and capacity choices and make plantwide system integration easier. The market for integrated systems is

In its first application in the food industry, PRōVOX instrumentation provides the Unilever margarine plant in Rotterdam, Holland with higher level coordination, reporting and tracking.



expected to double by the 1990s. Fisher intends to be part of this growth.

Fisher broadened its worldwide manufacturing and product support in 1985 with a new instrumentation facility in England and other facilities nearing completion. In addition, the company expanded its service and sales network, opening new markets in Europe and Asia-Pacific.

In January 1986, the Monsanto Separations Business Group was incorporated as Permea, Inc., and became a Fisher subsidiary. Permea, Inc. supplies membrane and adsorption systems for gas processing, along with a variety of gas processing products. Permea, Inc. includes the newly acquired Kemp and Maritime Protection businesses.

Fisher operates in competitive, international businesses. To continue its success, the company is committed to "Process Performance" — combining quality, service applications, engineering and research to meet the needs of its many worldwide customers.

Acquiring G. D. Searle & Co. in 1985 gave Monsanto a long-awaited entry into the international pharmaceutical industry. Searle intends to strengthen its position through developing new chemical and biological products for its worldwide marketing and sales organization. Discoveries emerging from Searle's research, plus those already under development at Monsanto, give Searle the breadth of research and diversity of discovery necessary to meet human needs for new, effective pharmaceuticals.

Cytotec, a new anti-ulcer product approved in Europe, Latin America and Asia, is produced under "clean room" conditions at this facility in England.



G. D. Searle & Co. was acquired by Monsanto to provide established development and marketing skills as well as pharmaceutical research capabilities. Monsanto's Health Care Division has been merged into Searle to create a strong, free-standing subsidiary.

"We now have an international pharmaceutical organization that is one of the top 30 in the world, and we intend to make it even stronger," said Earle H. Harbison, Jr., an Executive Vice President of Monsanto* and Chairman of the Board of Searle.

Research will be the basis of that strength. During the several years prior to the acquisition by Monsanto, Searle had increased its discovery efforts, and new drug candidates are beginning to emerge from that process. Combined with the health care research formerly conducted by Monsanto, total research and development capabilities at Searle have increased by almost 50 percent. Contributing to that work are the molecular biotechnology and chemical synthesis strengths of Monsanto and its joint research arrangements with leading universities.

"Combining biotechnology with traditional chemical research forms a balanced program with the breadth we need to be a force in the marketplace," Mr. Harbison said. "We will fund that work at between \$160 million and \$170 million in 1986, and we intend to keep investing at appropriate levels in the future."

One of the important products now emerging from the Searle research efforts is *Cytotec* for the treatment of ulcers. *Cytotec* has been successfully launched in Mexico and introduced in Switzerland, Malaysia and Singapore.

Cytotec registrations have been submitted in 36 countries, including the United States. To date, it has been approved in eight countries, with additional approvals anticipated in 1986.

Beyond *Cytotec*, there are 21 new chemical or biological entities in various stages of the development process neces-

*Effective April 1, 1986, Mr. Harbison becomes Vice Chairman of Monsanto Company.



Searle's *Nitrodisc* pad provides once-a-day nitrate therapy for the prevention and treatment of angina (chest pain). Using a "through the skin" drug delivery system developed by Searle research, *Nitrodisc* dispenses medication continuously and uniformly over a 24-hour period.

Dr. Sheldon G. Gilgore, President and Chief Executive Officer, G. D. Searle & Co.

sary to establish their safety and efficacy. Among them is Atrial Peptide III, for cardiovascular therapy.

Atrial peptide research is a good example of how the Searle/Monsanto efforts support each other. This exciting protein was first identified at Washington University for further testing. Through collaboration with Monsanto, test quantities were produced using biotechnology and chemical synthesis. Based on promising results, atrial peptides are now moving into the development process at Searle.

In addition to Searle's own new chemical compounds, new products are coming from Lorex, the Searle/Synthelabo joint venture. Lorex filed an application in the United States in 1985 to market *Kerlone*, a patented beta blocker for the treatment of angina and hypertension. *Kerlone* already is marketed outside the United States.

To strengthen the company's position in key markets, Searle has completed new pharmaceutical manufacturing facilities in Japan and Korea. In addition, a major facility to support *Cytotec* was brought on stream in England.



Searle's tasks for the future are to continue its aggressive research, divide its efforts appropriately among discovery, pre-clinical and clinical work, continue its toxicological and formulation testing, and further strengthen its marketing and sales organization around the world.

"We intend to build one of the top competitors in pharmaceuticals, worldwide," said Mr. Harbison. "Time will tell, but we are confident we have the elements in place to be a winner."

^aIncluding the period before its acquisition by Monsanto.

The effect of *NutraSweet* on the growth of several food categories has been dramatic. After hot cocoa mixes sweetened with *NutraSweet* appeared on the market, sales of these products stopped declining and grew by about 25 percent. Powdered soft drinks were once a stagnant \$650 million market. Since the introduction of *NutraSweet* brand sweetener in these products, their sales grew to \$900 million in less than three years. *Equal*, a low-calorie tabletop sweetener made with *NutraSweet* and the company's entry into the food business, is another excellent example of market growth. Since *Equal* was introduced in 1982, the tabletop sweetener market has grown from about \$100 million to over two and one half times that amount; and *Equal* has captured over half of the dollar sales in this expanded market.

But most dramatic has been the impact of *NutraSweet* on the soft drink industry. Until the introduction of *NutraSweet* in carbonated beverages in late 1983, the diet soft drink market had been growing at a moderate rate. Since that time, there has been a tremendous acceleration in this segment's growth. Currently, sugar-free brands are growing at an annual rate of 11 percent as compared to a 2 percent rate for sugar soft drinks. In 1985, sugar-free soft drinks accounted for about 25 percent of grocery store soft drink sales in the United States. Today, more than 45 sugar-free soft drink brands, including all the major brands, are sweetened 100 percent with *NutraSweet*. *NutraSweet* has become the industry's sugar-free sweetener of choice.

As with any successful product, there are those who seek to make unsubstantiated charges against the product. *NutraSweet* is one of the most thoroughly tested food additives ever evaluated by the U.S. Food and Drug Administration (FDA) and has undergone over 100 scientific studies over a 20-year period. Regulatory and scientific authorities throughout the world have reviewed the data on *NutraSweet* and have found it to be safe for the general population. These authorities include the FDA, the World Health

Robert B. Shapiro,
President and
Chief Executive Officer,
The NutraSweet Company



Organization, the Council on Scientific Affairs of the American Medical Association, the Scientific Committee for Food of the Commission of the European Communities and the regulatory bodies of more than 50 nations.

When *NutraSweet* was nationally launched, the decision was made to market it as a brand — which was a first for a food ingredient. Food and beverage manufacturers carried the *NutraSweet* brand name on packaging and in advertising. A red and white peppermint swirl was created to identify products sweetened exclusively with *NutraSweet* brand sweetener.

Marketing and advertising campaigns in 1985 were designed to develop the consumer's understanding of the benefits of *NutraSweet*, to promote recognition of the *NutraSweet* swirl logo, and to build consumer preference for brands sweetened 100 percent with *NutraSweet*. Today, some 98 percent of U.S. consumers are aware of *NutraSweet*. Further, 72 percent of the public has tried products containing *NutraSweet*, and three-quarters of these U.S. consumers are repeat users.

Sweeteners are not new to Monsanto — over 85 years ago the Company's first product was saccharin. Today, Monsanto is excited at reentering this market with *NutraSweet*, one of the most successful new food ingredients in history.

The red and white peppermint swirl identifies products sweetened exclusively with *NutraSweet*.



Monsanto's ability to improve the profitability of existing products and to discover new ones is the strongest in history. With over \$500 million budgeted for research and development programs in 1986, the Company is well positioned to compete effectively, not only in today's marketplace, but two, five and ten years from now. Intimidating skills in chemistry, molecular biology, process engineering, life sciences and other fields are closely coupled to imaginative business strategies.

Dr. Howard A. Schneiderman (left), discusses potential biotechnology applications with Dr. George A. Keyworth II (center), Science Adviser to the President, and Indian Prime Minister Rajiv Gandhi at the National Academy of Sciences, Washington, D.C.

According to Dr. Howard A. Schneiderman, Senior Vice President and Chief Scientist, Corporate Research and Development, "Monsanto has a powerful technological and scientific base on which to draw to ensure the economic future of the Company. A challenging and productive research environment attracts and keeps top scientists and engineers. As business objectives change, the supporting science and technology also change. But Monsanto's unswerving and durable commitment to good science remains the key to the corporation's technology and business strategy."

Biotechnology and genetic engineering are important areas of research emphasis. An extraordinarily talented team of young scientists is looking for new ways to treat major human diseases, to improve meat and milk production and to enhance productivity in important agricultural crops. In each of these areas, Monsanto's biotechnology team has developed attractive product candidates which are moving steadily toward commercialization.

Monsanto has established intimate associations with major research-based universities, such as Washington University, Oxford University and Rockefeller University, which have begun to pay dividends by identifying new product leads and by expanding the scientific understanding needed to discover new products.

New fibers, plastics, composites, high-performance polymers and polymer



blends, coating materials, rubber chemicals and detergent materials are crucial areas of major on-going research. In optimizing Monsanto's traditional strengths, scientists and engineers are focusing on innovative ways to shorten the time required to develop products, including collaborative research with customers.

In agriculture, new sources of product leads for herbicides and fungicides come from both internal research and from aggressive licensing. Major efforts to increase the speed and effectiveness of screening candidate compounds have led to both improved processes to select candidate compounds and improved screens.

While fundamental studies are essential building blocks for the future, there is a clear realization that exploratory projects must be directed toward the development of important products for the marketplace. Relevant science, well executed on an urgent schedule, coupled with intense commercial development, are keys to a full pipeline of profitable new products.

Dr. Philip Needleman (seated), Alumni Professor and Head of the Pharmacology Department at Washington University School of Medicine, isolated and identified atrial peptides now being developed by Searle.



Monsanto 1985 Financial Report

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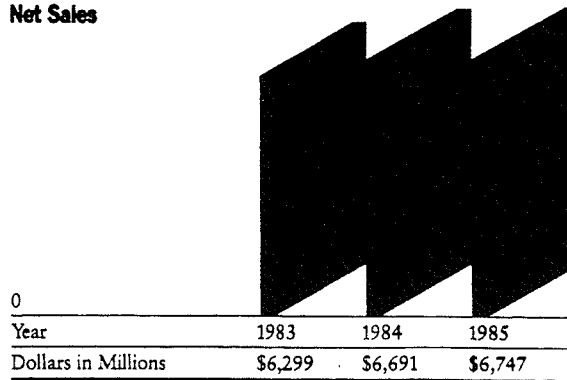
1985 Financial Report

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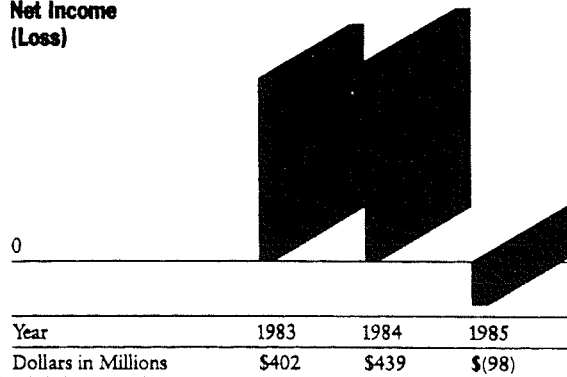
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Unless otherwise indicated by the context, "Monsanto" means Monsanto Company and consolidated subsidiaries and "the Company" means Monsanto Company only. All dollars are in millions, except per share data.

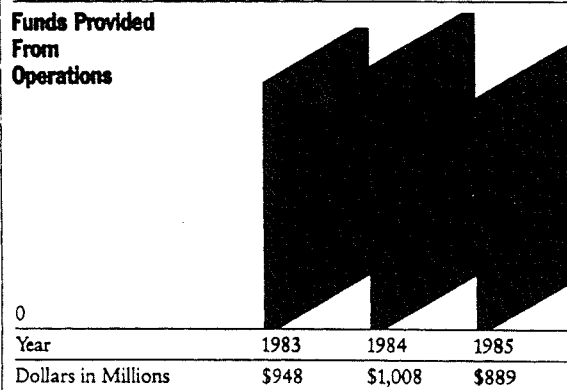
Net Sales



Net Income (Loss)



Funds Provided From Operations



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.

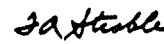
Management is also responsible for maintaining a system of internal accounting control to provide reasonable assurance that assets are safeguarded against material loss from unauthorized use or disposition and that authorized transactions are properly recorded to permit the preparation of accurate financial 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 1985 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 five non-employee directors, meets with Controllershship, 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
President and
Chief Executive Officer*



Francis A. Stroble
Senior Vice President and
Chief Financial Officer

February 28, 1986

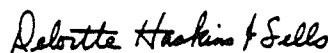
*Effective April 1, 1986, Mr. Mahoney becomes Chairman of the Board and Chief Executive Officer.

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, 1985 and 1984, 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, 1985. 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, 1985 and 1984, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.



Saint Louis, Missouri
February 28, 1986

Statement of Consolidated Income

<i>(Dollars in millions, except per share)</i>	1985	1984	1983
Net Sales	\$6,747	\$6,691	\$6,299
Cost of goods sold	4,841	4,839	4,734
Gross Profit	1,906	1,852	1,565
Marketing and administrative expenses	919	722	681
Technological expenses	548	446	359
Amortization of intangible assets	88	7	4
	1,555	1,175	1,044
Operating Income	351	677	521
Interest expense	(178)	(100)	(96)
Interest income	63	92	73
Other income — net	23	38	72
	(92)	30	49
Income Before Unusual Item, Income Taxes and Extraordinary Items	259	707	570
Restructuring cost — net	(557)		
Income (Loss) Before Income Taxes and Extraordinary Items	(298)	707	570
Income taxes	(170)	268	201
Income (Loss) Before Extraordinary Items	(128)	439	369
Extraordinary Items:			
Gain from repayment of debt	30		
Tax benefits from utilization of ex-U.S. loss carryforwards			33
Net Income (Loss)	\$ (98)	\$ 439	\$ 402
Earnings per Share:			
Before extraordinary items	\$ (1.67)	\$ 5.42	\$ 4.48
Extraordinary items	0.40		0.41
After extraordinary items	\$ (1.27)	\$ 5.42	\$ 4.89

The above statement should be read in conjunction with pages 39 through 44 of this report.

Consolidated Results of Operations

Building for the Future Has a Price Today

The Company's principal long-term financial goal is to improve return on shareowners' equity. To achieve that goal under current and projected economic conditions required taking bold steps that negatively affected 1985 financial results. The two major steps taken were the acquisition of G. D. Searle & Co. and the completion of a companywide restructuring program.

Monsanto's operating income for 1985 was \$351 million, compared with \$677 million in 1984. However, the costs associated with restructuring Monsanto for the future resulted in a 1985 net loss of \$98 million, compared to 1984 net income of \$439 million. Earnings per share for 1985 were a loss of \$1.27, compared to income of \$5.42 for 1984.

Key Strategic Objective Met with Searle Acquisition

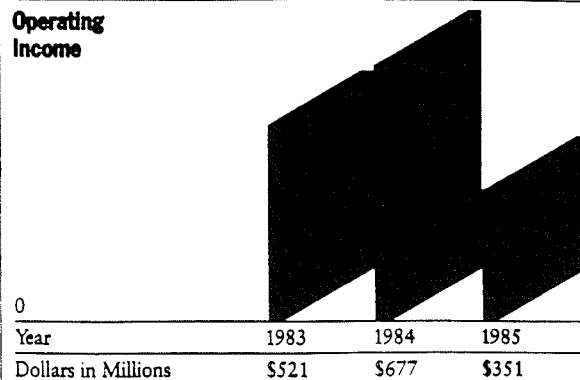
The acquisition of G. D. Searle & Co. in August 1985 accomplished a key corporate objective of becoming a major factor in the pharmaceutical industry. The acquisition provides resources to commercialize products resulting from Monsanto's pharmaceutical research activities. In addition, Searle's ongoing research activities complement those of Monsanto, adding to the number of new products expected in the future. Searle also brings to Monsanto the leading low-calorie sweetener — *NutraSweet*. This product has rapidly established itself in the diet soft drink industry and other food categories, and is expected to continue to grow in the future. Searle's sales and operating income (after deducting intangible asset amortization expense) were \$561 million and \$30 million, respectively, for the August-December period of 1985. However, the interest expense associated with the debt incurred to finance the acquisition of Searle more than offset Searle's operating income.

Major Restructuring Accomplished

In the fourth quarter of 1985, the Company's Board of Directors approved a restructuring program and reorganization of Monsanto with the objective of redirecting Monsanto's financial and employee resources toward businesses with higher growth potential. These actions included withdrawals from selected low-return businesses and production facilities, sales of certain assets which no longer had strategic importance and reductions in the number of employees. In connection with the approved plan, the Company provided \$1,055 million for asset write-downs and costs associated with the restructuring program. This charge was reduced by gains on the sale of Monsanto's oil and gas operations and the Seal Sands, United Kingdom, chemical intermediates plant, resulting in a net restructuring cost of \$557 million (\$341 million after tax, or \$4.43 per share). Sales and

operating income of the divested and discontinued product lines in 1985 were \$931 million and \$48 million, respectively.

Operating Income



Weak Agricultural and Semiconductor Economies Impact Operating Profitability

Operating income for 1985 declined 48 percent from 1984, due to weak economic conditions in several of Monsanto's markets, particularly agriculture and semiconductors.

Continuing problems in the domestic farm economy significantly affected sales of *Lasso* and *Roundup* herbicides. Sales volume of *Lasso* herbicide, which is sold primarily in the United States, was 20 percent lower than 1984. Worldwide usage of *Roundup* herbicide increased in 1985, but sales volume decreased 2 percent as United States customers reduced inventory levels. Sales of *Roundup* continued to grow in all other world areas.

The market for Monsanto's silicon materials was adversely affected by the depressed semiconductor industry. Based on leading industry indicators, the Company believes that the downturn reached its lowest point in the fourth quarter of 1985, and that 1986 should show at least moderate recovery in demand for high value, electronic-grade silicon wafers. Actions taken in 1985 have significantly lowered Monsanto's break-even point in plant capacity utilization, which should favorably affect future profitability when the silicon materials markets return to higher demand levels.

Monsanto's net income was also negatively affected by increased international competition for certain chemical-based products. The strength of the U.S. dollar throughout most of the year, though reduced somewhat from 1984 year-end levels, continued to fuel heavy imports from international competitors. Although the U.S. dollar had begun to return to more normal levels by year-end, Monsanto's United States markets will be slow to recover as international competitors have firmly established themselves in these markets.

Sales Up Slightly

Net sales increased slightly in 1985 to \$6,747 million. The additional 1985 net sales of the acquired Searle businesses more than offset the volume and pricing declines in other businesses. Sales volume declined 4 percent, excluding divestitures and the acquisition of Searle. Selling prices in 1985 declined 3 percent. Most operating segments had lower 1985 sales, reflecting reduced demand and increased competition for certain products.

The gross profit margin was 28 percent, unchanged from 1984, despite lower levels of business activity and pricing pressure from ex-U.S. competitors. Monsanto's asset management and cost reduction programs, coupled with lower raw material costs and the higher margins associated with Searle's products, were the principal contributing factors to maintaining these relatively good margins. Manufacturing facilities operated at approximately 70 percent of capacity, down from 75 percent in 1984. Raw material costs declined approximately 3 percent.

The year-to-year increase in marketing and administrative expenses reflects the inclusion of Searle's businesses, with their heavier marketing-related expenses.

Technological expenses in 1985 increased 23 percent over 1984, reflecting continuing commitment to research and development programs and the acquisition of Searle. R&D expenses were 7 percent of sales in 1985, compared with 6 percent in 1984 and 5 percent in 1983. The increase in 1985 was concentrated in expenditures directed toward emerging technologies.

Amortization of intangible assets increased substantially as a result of acquired Searle patents and, to a lesser extent, goodwill and other intangible assets. Interest expense was also substantially higher in 1985, reflecting the cost of the debt issued to acquire Searle. Interest income declined in 1985, reflecting lower interest rates and lower average levels of security investments.

Net income in 1985 included a \$30 million extraordinary gain from the repayment, at a discount, of \$168 million in long-term debt. Net income as a percent of average shareowners' equity was a negative 3 percent compared with 12 percent in 1984. Excluding the net restructuring cost and the extraordinary gain from repayment of debt, 1985 income as a percent of average shareowners' equity was 6 percent.

Sales in 1984 increased 6 percent over 1983 on a volume increase of 5 percent, net of divestitures, and an increase of 1 percent due to higher selling prices. The volume increase resulted from the strong economic recovery in the first half of 1984, which affected most product lines. Market conditions weakened substantially later in the year, however, because of an economic slowdown in several industrial sectors and the persistent strength of the U.S. dollar, which increased international competition and unfavorably affected the translation of ex-U.S. earnings into U.S. dollars. Net income in 1984 was 9 percent higher than the preceding year, as a result of the strong first half performance. Net income in 1983 was increased by a \$33 million extraordinary tax benefit from utilization of prior years' ex-U.S. loss carryforwards.

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

	1985 vs. 1984	1984 vs. 1983
Sales Related Factors:		
Selling prices	\$ (1.18)	\$ 0.56
Sales volume and mix	(1.98)	1.07
Total Sales Related Factors	(3.16)	1.63
Cost Related Factors:		
Raw material prices	0.52	0.29
Other manufacturing costs	0.40	0.38
Marketing and administrative expenses	(0.18)	(0.27)
Technological expenses	(0.24)	(0.65)
Total Cost Related Factors	0.50	(0.25)
Other Factors:		
Acquisitions		
Operations	0.75	(0.03)
Intangible asset amortization	(0.62)	(0.02)
Divestitures	0.03	(0.10)
Total Other Factors	0.16	(0.15)
Operating Income	(2.50)	1.23
Interest expense:		
Acquisition related	(0.84)	—
Other	0.24	(0.03)
Interest income	(0.22)	0.15
Other income — net	(0.11)	(0.27)
Effective tax rate	0.65	(0.23)
Shares outstanding	0.12	0.09
Change in Income Before Unusual and Extraordinary Items	(2.66)	0.94
Restructuring cost — net	(4.43)	
Extraordinary items	0.40	(0.41)
Change in Earnings per Share	\$ (6.69)	\$ 0.53

Operating Unit Segment Data

	Net Sales			Operating Income (Loss)			Research and Development		
	1985	1984	1983	1985	1984	1983	1985	1984	1983
Agricultural Products:									
Crop Chemicals	\$1,073	\$1,256	\$1,167	\$298	\$438	\$400	\$110	\$107	\$ 78
Animal Sciences	79	82	83	(55)	(49)	(33)	32	22	14
Chemicals	4,051	4,360	4,148	234	336	230	128	131	112
Electronic Materials	137	220	120	(67)	4	(56)	16	14	14
Fisher Controls	652	550	535	36	27	24	20	23	13
NutraSweet	317			58			11		
Pharmaceuticals	262	15		(84)	(30)	(15)	96	24	15
Oil and Gas	172	203	241	16	27	41			
Biotechnology Product Discovery				(31)	(24)	(21)	31	24	21
Corporate Items and Eliminations	4	5	5	(54)	(52)	(49)	26*	25*	23*
Total consolidated	\$6,747	\$6,691	\$6,299	\$351	\$677	\$521	\$470	\$370	\$290

* 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		
	1985	1984	1983	1985	1984	1983	1985	1984	1983
Agricultural Products:									
Crop Chemicals	\$1,061	\$1,236	\$1,214	\$ 84	\$ 88	\$109	\$ 89	\$ 80	\$ 73
Animal Sciences	174	184	187	31	31	60	21	20	16
Chemicals	2,982	3,222	3,201	291	279	213	248	273	298
Electronic Materials	302	280	253	55	47	26	37	30	28
Fisher Controls	636	536	503	53	32	29	28	21	20
NutraSweet	1,862			4			73		
Pharmaceuticals	1,438	80	3	33	7	4	39	7	1
Oil and Gas		578	543	85	107	101	59	69	85
Biotechnology Product Discovery	33	31	15	3	17	15	2	1	1
Nonoperating Assets	389	226	508	6	6	3	3	2	1
Total consolidated	\$8,877	\$6,373	\$6,427	\$645	\$614	\$560	\$599	\$503	\$523

The above data should be read in conjunction with the "Segment Information" note to the financial statements on page 44.

The Company realigned its financial reporting of Operating Unit Segments to closely align with the recent reorganization and to better reflect the future direction of Monsanto's operations following the acquisition of G. D. Searle & Co. The fibers and intermediates, industrial chemicals, polymer products and most of the fabricated products businesses have been combined to form a new Chemicals segment. Two new segments, Pharmaceuticals and NutraSweet, include the acquired operations of G. D. Searle & Co. The Electronic Materials business has been made a separate segment and the separations business, previously part of fabricated products, has been transferred to and combined with Fisher Controls, because they serve similar markets. The businesses in the former

Biological Sciences segment have been realigned with the animal products now being separately reported as Animal Sciences, the Health Care Division has been merged with Searle and included in the Pharmaceuticals segment and other products have been transferred to the Chemicals segment. Biotechnology Product Discovery represents the Corporate basic R&D effort in biotechnology, a major thrust of the Company.

■ Crop Chemicals

Net Sales	1985	1984	1983
Herbicides and other agricultural chemicals	\$1,073	\$1,256	\$1,167

Sales and operating income for 1985 declined 15 and 32 percent, respectively, reflecting the lower sales volumes and prices in certain products. Sales volume of *Lasso* herbicide, primarily used in the United States during the spring planting season, decreased 20 percent, due to the weak United States farm economy. In addition, the uncertain demand for 1986 resulted in lower fourth quarter 1985 sales, when customers historically have purchased herbicides in advance of the spring planting season.

Worldwide usage of *Roundup* herbicide increased again in 1985, but sales volume declined 2 percent as United States customers reduced inventory levels. Strong demand in other world areas was more than offset by lower sales in the United States. Herbicide sales in Europe and Latin America benefited from unusually dry weather after harvest, which allowed farmers to apply *Roundup* herbicide to re-emerged weeds. The weak farm economy adversely affected *Roundup* herbicide sales in the United States.

The United States Environmental Protection Agency (EPA) has begun their Special Review to determine whether *Lasso* herbicide may cause an unreasonable adverse effect on humans or the environment. That review should continue through 1986. Pending the review results, Monsanto and the EPA agreed to modifications in the label for *Lasso*, which do not significantly affect the majority of uses for *Lasso*. Monsanto's tests confirm that *Lasso* poses no unreasonable adverse effects to humans or the environment, and the Company believes the EPA review will result in a similar conclusion. The Canadian Minister of Agriculture is reviewing *Lasso* herbicide use in that country. Pending completion of the review, the Minister of Agriculture decided not to extend the temporary registration of *Lasso* for 1986. The Company has appealed that decision. No significant effect on operating results is expected from these reviews.

Sales and operating income in 1984 increased 8 and 10 percent, respectively. Sales volumes of *Roundup* and *Lasso* herbicides both increased 6 percent year to year. The higher operating income from greater sales volume more than offset the increased research and development expenses.

■ Animal Sciences

Net Sales	1985	1984	1983
Animal products	\$ 79	\$ 82	\$ 83

Sales for 1985 declined 4 percent. Sales volume of *Alimet* animal feed supplement continued to grow, but selling prices were negatively affected by compe-

tion from ex-U.S. manufacturers. Operating losses increased over the three year period as a result of significant research expenses, along with expanded marketing efforts. Significant progress continues to be made in one of the Company's first biotechnology products, bovine growth factor, which research indicates increases the milk production of cows. It is expected the product will be accepted for commercial sale in the United Kingdom in the late 1980s.

For 1984, sales were essentially level with the prior year as higher volumes were offset by lower selling prices, resulting from ex-U.S. competition. The continuing heavy R&D and facility start-up costs resulted in an operating loss for both 1984 and 1983.

■ Chemicals

Net Sales	1985	1984	1983
Detergent materials	\$ 550	\$ 577	\$ 540
Engineered products	251	281	223
Man-made fibers	1,080	1,194	1,170
Plastics	804	874	809
Resin products	637	693	742
Rubber chemicals and instruments	283	310	279
Specialty chemicals	446	431	385

In 1985, sales and operating income declined 7 and 30 percent, respectively, as compared with 1984. Intense import competition and stagnant United States economic sectors associated with many of the Company's product lines resulted in lower selling prices and volumes for many products, including detergent materials, man-made fibers, rubber chemicals, plastics and resin products. The intensive import competition was due to the continuing strength of the U.S. dollar. In addition, industry capacity expansion in the last half of 1984 resulted in competitive pressures on styrene monomer prices and volumes. Nylon fiber profitability was also lower in 1985 versus 1984 from both lower selling prices and, to a lesser extent, sales volume. Sales to the automotive industry remained relatively good during 1985. Overall, chemical plant capacity utilization rates were lower in 1985. However, the resulting higher unit manufacturing costs were partially offset by the benefits from cost reduction programs and lower raw material costs. During the fourth quarter of 1985, the decision was made to withdraw from selected low-return businesses and production facilities. In December 1985, the Seal Sands chemical intermediates plant was sold. Sales of these divested and discontinued chemical product lines in 1985 were \$645 million.

Sales in 1984 increased 5 percent over 1983 due to strong sales volumes of branded nylon carpet fibers, higher sales volumes of products to the automotive and housing industries, industrial chemicals and increased construction project activity in Monsanto

Enviro-Chem Systems, Inc. Operating income increased 46 percent, reflecting strong demand and improved pricing for nylon carpet fibers and intermediates and improved sales volumes of other products. The higher sales volumes also resulted in improved plant capacity utilization. In addition, 1984 was favorably affected by the elimination of 1983 divested business losses.

Electronic Materials

Net Sales	1985	1984	1983
Electronic-grade silicon materials	\$137	\$220	\$120

Sales declined 38 percent in 1985, reflecting sharply lower demand for silicon wafers in the depressed semiconductor market. This resulted in a substantial operating loss in 1985. Based on leading indicators in the semiconductor industry, the Company believes that the downturn reached its lowest point in the fourth quarter of 1985, and that 1986 should show at least moderate recovery in demand for high value, electronic-grade silicon wafers. Actions taken during 1985 have significantly reduced Monsanto's break-even point in plant capacity utilization. This should result in better performance when the silicon market returns to higher levels.

Electronic materials had strong growth in 1984, with silicon wafer sales increasing 83 percent, reflecting both higher volume and prices. These factors, along with higher silicon materials plant capacity utilization, resulted in a \$60 million operating profit improvement over 1983.

Fisher Controls

Net Sales	1985	1984	1983
Valves, regulators, electronic process controls and gas separation systems	\$652	\$550	\$535

Sales increased 19 percent in 1985. Sales of PRōVOX instrumentation systems continued to grow significantly, and selling prices for other products were higher in 1985. Demand for control valves continues to be somewhat weak in North America. The European control valve business is strong and continues to grow; however, shipping problems hampered that growth in 1985. Sales of gas separation systems also grew significantly. Operating income in 1985 improved 33 percent as a result of these positive factors, partially offset by higher levels of marketing effort associated with launching PRōVOX, an operating loss of a small 1985 acquisition and currency devaluations in Mexico.

Sales and operating income in 1984 increased 3 and 13 percent, respectively, over 1983. Improved operations in North and Latin America and higher sales of gas separation systems were offset by a one-time acquisition-related technological expense and

by continuing weak European performance, caused by the adverse impact of the strong U.S. dollar on United States exports and the depressed capital goods market.

NutraSweet

Net Sales	1985*
NutraSweet low-calorie sweetener products and nonprescription pharmaceutical products	\$317

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

This segment includes the NutraSweet, Equal and U.S. consumer products businesses acquired as part of Searle. The NutraSweet business, including Equal, is now operated as a separate subsidiary, The Nutra-Sweet Company. Operating income in 1985 reflects strong NutraSweet profitability for the August-December period, partially offset by amortization expense related to intangible assets recorded as part of the Searle acquisition. Sales of NutraSweet in 1985, including the period prior to its acquisition by Monsanto, were 27 percent higher than 1984. The conversion of the carbonated soft drink industry from a NutraSweet/saccharin formulation to 100 percent NutraSweet was a major factor in the increase. In 1985, a \$130 million NutraSweet manufacturing facility was completed in Augusta, Georgia. The majority of the consumer products business was sold in December 1985.

Pharmaceuticals

Net Sales	1985*	1984
Pharmaceutical products	\$262	\$15

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

This segment comprises the pharmaceutical products of Searle and the former Monsanto Health Care Division. The operating loss in 1985 reflects heavy R&D efforts and the amortization expense related to intangible assets recorded as part of the Searle acquisition. Including the sales of Searle prior to acquisition, sales of pharmaceutical products were virtually the same in 1985 as compared to 1984. Increased sales of *Calan*, *Nitrodisc*, oral contraceptives and *Theophylline-24* were offset by declining sales of Searle's mature products and negative ex-U.S. currencies' impact. Sales of Searle's pharmaceutical products continue to be affected by competition from new drugs and intensified generic drug competition. *Cytotec*, Searle's new ulcer treatment product, was introduced in Switzerland, Singapore and Malaysia during 1985, and Food and Drug Administration approval is being sought for introduction to the United States market.

The 1984 and 1983 operating losses reflect Monsanto's pharmaceutical related research effort and the costs associated with the establishment of the former Health Care Division.

Oil and Gas

	1985	1984	1983
Net Sales			
Oil and gas	\$172	\$203	\$241

Reduced oil and gas volumes and prices resulted in lower sales and operating income in 1985 as compared with 1984, and in 1984 as compared with 1983. As part of Monsanto's restructuring program to divest of non-strategic businesses, the Company sold its oil and gas business in December 1985 (see notes to financial statements).

Biotechnology Product Discovery

	1985	1984	1983
Research and development expenses	\$31	\$24	\$21

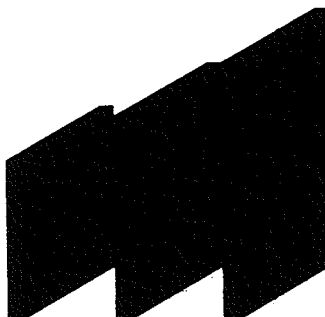
These expenses relate to basic and applied biotechnological research aimed at developing new biotechnology-based product opportunities that are further developed and commercialized by the crop chemicals, animal sciences and pharmaceuticals businesses. The cost of the current biotechnology effort directly related to crop chemicals, animal sciences and pharmaceutical activities is included as an expense in those segments. Continuing high levels of research have resulted in increasing expenses over the three year period.

Research and Development

In recent years, Monsanto's research has focused on emerging technologies — biotechnology, plant biology, animal nutrition, human health care and electronic materials. In addition, substantial research efforts continue in support of traditional areas of strength, such as agricultural chemistry, catalysis, polymer science, industrial chemicals, chemical engineering systems and applications research, and in support of *NutraSweet* low-calorie sweetener.

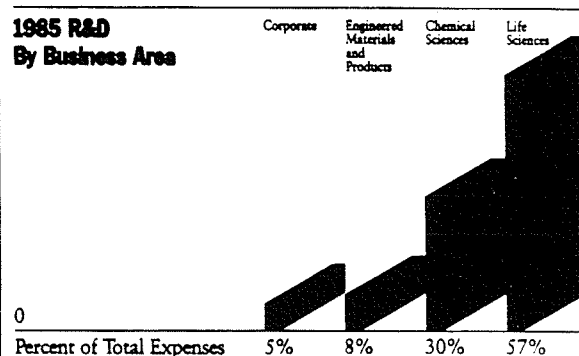
The continuing growth in research and development expense is evidence of Monsanto's commitment to the strategy of developing new products and market opportunities from emerging technologies. For 1985, approximately one-half of total R&D expenses were directed toward these emerging technologies. In 1985, total R&D expenses increased to a record level and were 7 percent of sales, compared to 6 and 5 percent in 1984 and 1983, respectively. R&D expenses for 1985 include only five months of Searle's R&D expenses. Total R&D expenses for 1986 are expected to approximate \$520 million.

R&D Expenses



Year	1983	1984	1985
Dollars in Millions	\$290	\$370	\$470

1985 R&D By Business Area



Acquisition of Searle Expands Research Capabilities

G. D. Searle & Co. significantly expands and complements Monsanto's research capabilities in biotechnology and human health care, adding both experienced professionals and facilities to Monsanto's existing research organization. In addition, Searle provides Monsanto with established organizations skilled at developing and marketing products that flow from the research program. The combination of the Company's strengths in basic and applied research in molecular biology and biotechnology, Washington University's powerful biomedical discovery capabilities and Searle's strengths in product development and marketing will further Monsanto's goal of becoming a leading supplier in the pharmaceutical industry. This research focuses on diseases of the cardiovascular, gastrointestinal, central nervous systems and immune systems.

World Area Segment Data

	Net Sales			Operating Income (Loss)		
	1985	1984	1983	1985	1984	1983
United States	\$4,451	\$4,498	\$4,243	\$222	\$516	\$452
Europe-Africa	1,073	968	943	87	93	44
Canada	310	292	274	66	61	51
Latin America	360	360	305	26	22	11
Asia-Pacific	553	573	534	29	55	27
Unallocated corporate items				(54)	(52)	(49)
Affiliates' equity income included in individual world areas				(25)	(18)	(15)
Total consolidated	\$6,747	\$6,691	\$6,299	\$351	\$677	\$521

As required by generally accepted accounting principles, world area segment data (page 44) in the notes to financial statements are prepared on an "entity basis." This means sales and income of the legal entity are assigned to the area where the entity is located (e.g., a sale from the United States to Latin America is reported as a United States sale). The above table summarizes Monsanto's results on an "area basis" wherein sales and income are assigned to the customer location (e.g., a sale from the United States to Latin America is reported as a Latin American sale).

United States

Approximately two-thirds of Monsanto's worldwide sales are to customers in the United States. Sales for 1985 declined 1 percent. However, on a comparable year-to-year basis excluding the acquisition of G. D. Searle & Co. and divestitures, sales declined approximately 10 percent. A combination of a difficult United States farm economy, the downturn in the semiconductor materials market and stiff competition from ex-U.S. manufacturers resulted in lower 1985 sales. The strength of the U.S. dollar and the resulting increased competition from ex-U.S. manufacturers continued to negatively affect prices and volumes of many chemical-based product lines.

These factors, coupled with lower plant capacity utilization and higher levels of technological expense, resulted in operating income declining sharply from \$516 million in 1984 to \$222 million in 1985. In October 1985, the Company announced a restructuring program and in December 1985, the Company sold its oil and gas business (see notes to financial statements).

For 1984, sales increased 6 percent from 1983 due to the stronger economy and the discontinuation of the 1983 United States government's Payment-in-Kind (PIK) agricultural program. Operating income in 1984 increased 14 percent due to improved sales volume and better plant capacity utilization, offset to some extent by greater import competition from ex-U.S. competitors as a result of the strong U.S. dollar.

Europe-Africa

Sales in 1985 increased 11 percent over the preceding year on the strength of chemicals, crop chemicals and Fisher Controls sales and the inclusion of Searle's businesses for the August-December period. Sales volumes increased as European customers had higher production levels to meet their increased competitiveness with United States manufacturers. Operating income, however, declined 6 percent due to the higher operating expenses of the former Health Care Division. The strong U.S. dollar hurt the competitiveness of United States exports, but benefited Monsanto's sales of European manufactured products.

In December 1985, the chemical intermediates plant at Seal Sands, United Kingdom, and Monsanto's North Sea oil and gas properties were sold (see notes to financial statements).

Sales in 1984 increased 3 percent as compared to 1983, reflecting the improved European economic conditions. Operating income for 1984 more than doubled, benefiting from strong acrylonitrile and nylon intermediates profits, and increased sales of Roundup herbicide.

Canada

Sales in 1985 increased 6 percent and operating income increased 8 percent from the inclusion of Searle's operating results and sales volume increases in many other product lines. The higher operating income was partially offset by the adverse translation effect of the strong U.S. dollar. During 1985, Monsanto benefited from strong Roundup herbicide sales, increased sales to the automotive industry and higher sales of Fisher Controls valves and PRÖVOX systems. Avadex herbicide sales volumes, however, declined due to inventory reductions by distributors. Sales and operating income increased in 1984 as compared to 1983 from good detergent product and crop chemicals sales.

Latin America

Sales in 1985 were level year-to-year, but operating income increased 18 percent. The higher profitability resulted from significant currency translation gains of Monsanto's Mexican equity affiliate, Industrias Resistol, S.A. This was partially offset by lower agricultural products sales in Brazil. Sales in 1984 increased 18 percent from the prior year, due primarily to higher agricultural products sales in Brazil. Operating income in 1984 doubled to \$22 million due to higher earnings of Industrias Resistol and higher agricultural products sales.

Asia-Pacific

Sales decreased 3 percent and operating income decreased 47 percent. Product mix and the effect of the strong U.S. dollar on the competitiveness of United States exports were negative factors. In addition, sales and profitability were adversely affected by the translation effect on ex-U.S. currency denominated results, especially the products manufactured and sold by the Company's Australian subsidiary. Agricultural product sales and profitability were lower in 1985 due to a drought in Australia and lower shipments to the People's Republic of China. Electronic materials operating results also were lower than the prior year.

Sales were higher in 1984 principally due to agricultural products sales volume growth. Operating income in 1984 was up 104 percent over 1983, due to improved results in Australia and increased sales of agricultural products.

A reconciliation of 1985 area basis sales and operating income to ex-U.S. entity basis sales and operating income (reflected in the notes to financial statements) follows:

	Net Sales	Operating Income
Ex-U.S. entities	\$2,114	\$216
U.S. exports	902	43 ¹
U.S. expenses allocated to ex-U.S. products		(42)
Ex-U.S. affiliates' equity income		27
Less: Inter-area eliminations	(720)	
Ex-U.S. entities' operating income on sales to U.S.		(36)
Ex-U.S. area basis	2,296	208
U.S. area basis	4,451	222
Affiliates' equity income included in individual world areas		(25)
Unallocated corporate expenses		(54)
Total consolidated	\$6,747	\$351

¹Net of allocated costs.

Quarterly Data

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Net Sales	1985	\$1,624	\$1,627	\$1,741	\$1,755	\$6,747
	1984	1,732	1,801	1,599	1,559	6,691
Gross Profit	1985	441	471	470	524	1,906
	1984	527	535	413	377	1,852
Income (Loss) Before Extraordinary Item	1985	87	124	31	(370)	(128)
	1984	175	145	78	41	439
Net Income (Loss)	1985	87	124	31	(340)	(98)
	1984	175	145	78	41	439
Earnings per Share Before Extraordinary Item	1985	1.12	1.60	0.42	(4.81)	(1.67)
	1984	2.13	1.77	0.97	0.55	5.42
After Extraordinary Item	1985	1.12	1.60	0.42	(4.41)	(1.27)
	1984	2.13	1.77	0.97	0.55	5.42

Crop chemicals sales historically are concentrated in the first half of the year and generally are more profitable than sales of other segments. Net income in each quarter of 1985 was lower than 1984 due to the difficult economic environment for United States chemical-based industries that has persisted since mid-1984, and the currently depressed United States farm economy. The second half of 1985 financial results include G. D. Searle & Co., acquired in August 1985. Fourth

quarter 1985 results were affected by the exclusion of the operating results of divested and discontinued product lines. The only 1985 major nonrecurring or unusual items affecting net income were in the fourth quarter and were the net restructuring cost of \$341 million, or \$4.43 per share, and the gain from repayment of debt of \$30 million, or \$0.40 per share. There were no major nonrecurring or unusual items in 1984.

Inflation-Adjusted Data

Year Ended December 31, 1985	Historical Cost	Current Cost
Net sales	\$6,747	\$6,747
Cost of goods sold, excluding depreciation	4,364	4,365
Depreciation expense	477	632
All other expenses — net	1,647	1,647
Income taxes	46	46
Net income before restructuring cost and extraordinary item	213	57
Restructuring cost — net (after tax)	(341)	(341)
Loss before extraordinary item	\$ (128)	\$ (284)

Current cost amounts shown above attempt to measure the effect of inflation on cost of goods sold and depreciation. Other historical amounts, including income taxes, are not adjusted for inflation to arrive at current cost net income. All current cost amounts are stated in average 1985 dollars using the U.S. Consumer Price Index (the "translate-restate" method).

The 1985 increase in current cost of inventories and property, plant and equipment was \$84 million. At December 31, 1985, the current cost of inventory and property, plant and equipment (net of accumulated depreciation) was \$1,505 million and \$3,452 million stated in year-end 1985 dollars.

The current cost of inventories was estimated using the FIFO (first-in, first-out) inventory method. Cost of goods sold on a current cost basis was approximated using the LIFO method, or similar techniques. The current cost of property, plant and equipment was estimated generally by using construction and equipment indexes. Current cost accumulated depreciation and related expenses were estimated using the same overall method and lives as used on a historical cost basis.

Selected Financial Data

	1985	1984	1983	1982	1981
Historical cost, as reported¹:					
Net sales	\$6,747	\$6,691	\$6,299	\$6,325	\$6,948
Income (loss) — Before extraordinary items	(128)	439	369	329	445
— Per share	(1.67)	5.42	4.48	4.10	5.75
Total assets	8,877	6,373	6,427	6,077	6,069
Long-term debt	2,087	824	937	1,003	1,110
Dividends per common share	2.45	2.25	2.075	1.975	1.875
Current cost (average 1985 dollars):					
Net sales	\$6,747	\$6,930	\$6,802	\$7,050	\$8,218
Income (loss) — Before extraordinary items	(284)	309	289	106	272
— Per share	(3.69)	3.81	3.51	1.33	3.51
Purchasing power gain on monetary items	66	33	31	37	116
Increase in specific prices of inventory and property over (under) increase caused by general inflation	(108)	1	(243)	(244)	(14)
Aggregate foreign currency adjustment, net of taxes	97	(148)	(107)	(184)	
Net assets	4,164	4,844	5,026	5,218	5,771
Other data (average 1985 dollars):					
Dividends per common share	\$ 2.46	\$ 2.34	\$ 2.25	\$ 2.21	\$ 2.24
Year-end common stock price	46.99	44.94	55.86	42.02	40.13
Average consumer price index	322.2	311.1	298.4	289.1	272.4

¹In 1982, the requirements of Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation," were adopted.

Statement of Consolidated Financial Position

(Dollars in millions, except per share)

At December 31

Assets	1985	1984
Current Assets:		
Cash, time deposits and certificates of deposit	\$ 195	\$ 149
Short-term securities, at cost which approximates market	98	310
Trade receivables, net of allowances of \$42 in 1985 and \$49 in 1984	1,218	1,078
Miscellaneous receivables and prepaid expenses	402	181
Deferred income tax benefit	267	40
Inventories	1,097	839
	3,277	2,597
Intangible Assets, net of accumulated amortization of \$110 in 1985 and \$33 in 1984	2,199	123
Investments in Affiliates	164	119
Other Assets	203	160
Property, Plant and Equipment, at Cost:		
Land	101	81
Buildings	961	732
Machinery and equipment	5,460	5,094
Mineral rights and oil and gas properties	34	765
Construction-in-progress	284	247
	6,840	6,919
Less accumulated depreciation	3,806	3,545
	3,034	3,374
Total Assets	\$8,877	\$6,373
Liabilities and Shareowners' Equity		
Current Liabilities:		
Accounts payable	\$ 522	\$ 497
Wages and commissions	129	110
Income and other taxes	348	69
Miscellaneous accruals	675	249
Short-term debt	704	277
	2,378	1,202
Long-Term Debt	2,087	824
Deferred Income Taxes	584	661
Other Liabilities	421	52
Shareowners' Equity:		
Common stock — authorized, 200,000,000 shares, par value \$2; issued, 82,197,097 shares in 1985 and 1984	164	164
Additional contributed capital	854	855
Accumulated currency adjustment	(191)	(319)
Reinvested earnings	2,824	3,110
	3,651	3,810
Less treasury stock, at cost (5,444,544 shares in 1985 and 3,916,071 shares in 1984)	244	176
	3,407	3,634
Total Liabilities and Shareowners' Equity	\$8,877	\$6,373

The above statement should be read in conjunction with pages 39 through 44 of this report.

Financial Strength Demonstrated

Monsanto's strong financial position, which resulted from the Company's comprehensive asset management and cost reduction programs, was demonstrated in the acquisition of G. D. Searle & Co. in 1985. This strong financial position enabled the Company to secure a \$3.0 billion line of credit, which was used to finance initially the \$2,754 million acquisition of Searle.

Debt Reduction Program on Target

To restore debt levels and financial ratios to acceptable levels after the Searle acquisition, the Company advanced the program to dispose of several businesses and assets that did not match Monsanto's long-term strategies. During 1985, the sales of such businesses and facilities generated gross cash proceeds of \$1,612 million, which were used primarily to reduce the debt incurred in the acquisition of Searle. At year-end 1985, the long-term debt to total capitalization level was 38 percent, as compared with 18 and 20 percent in 1984 and 1983, respectively. Management believes the long-term debt to total capitalization ratio should approximate 33 percent over time.

The interest coverage ratio (times interest earned) was affected by the debt incurred to acquire Searle and by lower earnings. That ratio (excluding the cost of the restructuring program, the extraordinary gain and the effect of capitalized interest) was 2.3 in 1985, as compared to 6.9 in 1984 and 5.3 in 1983.

Monsanto's current ratio (current assets divided by current liabilities), an indicator of liquidity, was 1.4:1 at year-end 1985, compared to 2.2:1 in 1984. Management believes a 2.0:1 ratio is desirable. Working capital was \$899 million at year-end 1985, compared to \$1,395 million in 1984. Working capital was reduced by higher short-term debt and by restructuring cost accruals, net of related income tax benefits. Inventories increased principally due to the acquisition of Searle. Receivables increased due to the acquisition of Searle and a \$140 million miscellaneous receivable, which was collected in January 1986, related to the sale of assets.

The Company 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 the financial statements (page 42).

The Company has made use of pollution control and industrial development bonds to finance qualified projects. Pollution control and industrial development bond obligations were 13 percent of all outstanding long-term debt at year-end 1985. 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's assets generally are free from lien and not used to collateralize debt.

Intangible assets substantially increased as a result of the acquisition of Searle. The assets of Searle were recorded at their estimated fair values at the date of acquisition, and included patents (\$1,265 million), goodwill (\$582 million) and other intangible assets (\$319 million). Patents are being amortized over their legal lives (approximately 8 years); goodwill and other intangible assets are being amortized over their estimated useful lives (approximately 40 and 13 years, respectively).

Property, plant and equipment in 1985 reflect the addition of Searle's assets, the sale of Monsanto's oil and gas properties and the Seal Sands, United Kingdom plant, and the write-down to estimated fair values of other facilities to be shut down or sold at less than book value under the restructuring program.

The second half 1985 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 \$191 million at year-end 1985. Currency adjustments are accumulated in this account until the related ex-U.S. investment is sold or liquidated.

Key Financial Statistics

	1985	1984
Working Capital (Current assets less current liabilities)	\$899	\$1,395
Current Ratio (Current assets divided by current liabilities)	1.4	2.2
Percent of Long-Term Debt to Total Capitalization*	38%	18%
Percent of Long-Term Debt to Total Shareowners' Equity	61%	23%

*Total capitalization is the sum of long-term debt plus shareowners' equity.

Statement of Changes in Consolidated Financial Position

(Dollars in millions)

Sources (Uses) of Funds	1985	1984	1983
Operations:			
Income (loss) before extraordinary items	\$ (128)	\$ 439	\$ 369
Charges not using (credits not providing) funds:			
Depreciation and amortization	599	503	523
Deferred income taxes	93	103	71
Other	(16)	(37)	(15)
Restructuring cost — net (after tax)	341		
Funds provided from operations, before changes in working capital and extraordinary items	889	1,008	948
Investment and Other Transactions:			
Extraordinary items	30		33
Working capital changes:			
Trade receivables	2	37	(39)
Inventories	(54)	(61)	46
Other current assets	(258)	(16)	(65)
Accounts payable and accrued liabilities	28	(42)	147
Short-term debt	(108)	24	122
Total working capital changes	(390)	(58)	211
Foreign currency adjustments on working capital	69	(58)	(47)
Property, plant and equipment additions	(645)	(614)	(560)
Net proceeds from investment and property disposals (gross proceeds of \$1,612 in 1985)	1,402	39	39
Repayment of short-term acquisition debt	(1,154)		
Acquisitions and investments (other than Searle)	(78)	(94)	(208)
Other	82	60	49
	(684)	(725)	(483)
Acquisition of Searle:			
Acquisition financing	2,754		
Searle assets and liabilities acquired:			
Current assets, excluding cash	(549)		
Intangible assets	(2,166)		
Other noncurrent assets	(1,023)		
Current liabilities	828		
Noncurrent liabilities	372		
Searle cash, time deposits and certificates of deposit at acquisition	216		
Financial Transactions:			
Long-term financing	415	12	49
Long-term debt reduction	(723)	(127)	(87)
Treasury stock purchases	(91)	(184)	(14)
Dividends	(188)	(182)	(170)
	(587)	(481)	(222)
Increase (Decrease) in Funds	\$ (166)	\$ (198)	\$ 243
Increase (Decrease) in Elements of Funds:			
Cash, time deposits and certificates of deposit	\$ 46	\$ (15)	\$ 21
Short-term securities	(212)	(183)	222
Increase (Decrease) in Funds	\$ (166)	\$ (198)	\$ 243

The above statement should be read in conjunction with pages 39 through 44 of this report.

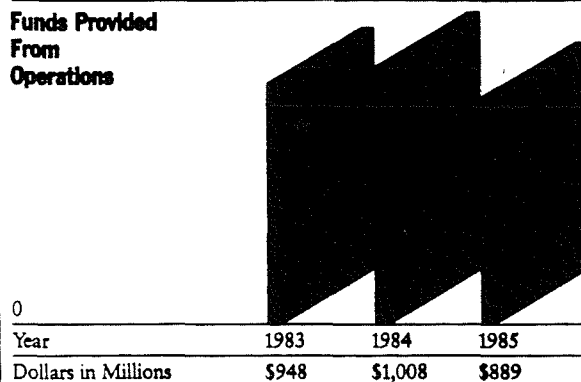
Review of Sources and Uses of Funds

Monsanto's 1985-1983 sources and uses of funds are shown in the Statement of Changes in Consolidated Financial Position on the preceding page.

Monsanto's combined cash and short-term securities declined primarily as a result of using excess cash to reduce debt incurred to acquire G. D. Searle & Co.

In 1985, Monsanto acquired Searle for \$2,754 million, which was initially financed through borrowings under a \$3.0 billion credit line arranged for that purpose. The line of credit was reduced to \$2.0 billion at year-end 1985. Those borrowings were subsequently repaid in late 1985 through sales of assets, which generated gross proceeds totaling \$1,612 million, and the issuance of commercial paper and long-term debt. The Company issued \$400 million of domestic long-term debt in November 1985. In January and February 1986, the Company issued \$300 million of long-term debt in the domestic and ex-U.S. financial markets. Proceeds from these borrowings were used to reduce the Company's commercial paper outstanding. The Company plans to issue additional debt and may issue equity securities, depending upon future financing needs and market conditions.

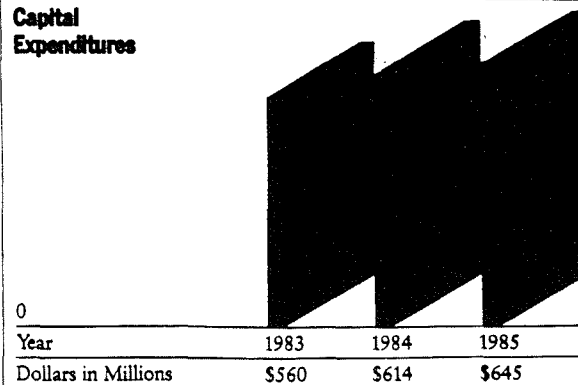
Funds Provided From Operations



Operations Provide Substantial Financial Resources

Despite the downturn in many of Monsanto's businesses and the effects of the restructuring program, funds provided from operations continued to be at a high level in 1985. These funds are the primary source of support for the significant research and development expenses and growth investment.

Capital Expenditures



Expenditures for property, plant and equipment in 1985, including capitalized interest, totaled \$645 million. The more significant 1985 expenditures were for additional capital projects at the Life Sciences Research Center in St. Louis County, Missouri, a new Fisher Controls PRÖVOX systems assembly plant in Austin, Texas, and the silicon wafer plant at Milton Keynes, United Kingdom. In addition, capital expenditures included \$85 million for the oil and gas business, which was sold in December 1985. In recent years, capital expenditures generally have been financed by cash from operations.

Dividends Increase for 13th 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 thirteen years. Dividend payout for 1985 was 21 percent of funds provided from operations. 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 28, 1986, was 72,933 and the high and low common stock prices on that date were \$60 and \$58½.

Statement of Consolidated Shareowners' Equity

<i>(Dollars in millions, except per share)</i>	1985	1984	1983
Common Stock:			
Balance, January 1	\$ 164	\$ 82	\$ 82
New shares issued (138,117 shares in 1984 and 11,289 shares in 1983)		—	—
Par value of stock issued in two-for-one stock split		82	—
Balance, December 31	\$ 164	\$ 164	\$ 82
Additional Contributed Capital:			
Balance, January 1	\$ 855	\$ 936	\$ 931
New shares issued		—	—
Par value of stock issued in two-for-one stock split		(82)	—
Other	(1)	1	5
Balance, December 31	\$ 854	\$ 855	\$ 936
Accumulated Currency Adjustment:			
Balance, January 1	\$ (319)	\$ (200)	\$ (122)
Translation adjustments	131	(121)	(84)
Income taxes	(3)	2	6
Balance, December 31	\$ (191)	\$ (319)	\$ (200)
Reinvested Earnings:			
Balance, January 1	\$3,110	\$2,853	\$2,621
Net income (loss)	(98)	439	402
Preferred dividends (\$2.06 per share in 1984 and \$2.75 per share in 1983)		—	—
Common dividends (\$2.45, \$2.25 and \$2.075 per share for 1985-1983, respectively)	(188)	(182)	(170)
Balance, December 31	\$2,824	\$3,110	\$2,853
Common Stock in Treasury:			
Balance, January 1	\$ (176)	\$ (4)	\$ (22)
Shares purchased (2,052,300, 4,053,300 and 159,570 shares in 1985-1983, respectively)	(91)	(184)	(14)
Conversion of convertible securities and issuances under employee stock plans (523,827, 349,837, and 471,966 shares in 1985-1983, respectively)	23	12	32
Balance, December 31	\$ (244)	\$ (176)	\$ (4)

The above statement should be read in conjunction with pages 39 through 44 of this report.

Key Financial Statistics — Common Stock Data

		1985	1984	1983
Stock Price*	High	\$ 55 ³ / ₄	\$ 53 ³ / ₄	\$ 58 ¹ / ₄
	Low	40 ³ / ₄	40 ³ / ₄	37 ¹ / ₄
Per Common Share	Dividends	2.45	2.25	2.075
	Shareowners' Equity	44.38	46.43	44.83

*Based on daily reported high and low stock prices.

Significant Accounting Policies

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

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.

Principal Acquisitions

In August 1985, Monsanto acquired G. D. Searle & Co. for \$2,754 million. Searle researches, manufactures and distributes prescription pharmaceutical products and aspartame-based, low calorie sweetener products. The acquisition of Searle was accounted for using the purchase method, and Searle's assets and liabilities have been recorded at their estimated fair values at the date of acquisition. The excess of the purchase price over the fair value of the identifiable net assets acquired (\$582 million) is being amortized on a straight-line basis over 40 years. Searle'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 Searle 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 item	(1.77)	4.09

The pro forma operating results include Searle'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 Searle 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.

In 1983, Monsanto purchased for \$178 million the minority interest in Fisher Controls International, Inc. (FCII), increasing the Company's ownership to 100 percent from the previous 66½ percent. The excess purchase price above FCII's net assets attributable to the minority interest was \$81 million, which is being amortized on a straight-line basis over 20 years.

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 which no longer have strategic importance and reductions in the number of employees. In connection with this program, in the fourth quarter of 1985 the Company provided a \$557 million charge to "Restructuring cost — 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	(498)
Restructuring cost — net	\$ 557

The impact on net income was \$341 million (net of estimated tax benefits of \$216 million), or \$4.43 per share.

As part of the restructuring and reorganization program, several sales of businesses and production facilities have occurred or are planned. In the fourth

quarter of 1985, the Company sold its oil and gas operations at a net gain of \$201 million (\$392 million before tax), or \$2.61 per share. Also in the fourth quarter of 1985, Monsanto sold its Seal Sands, United Kingdom fiber intermediates plant at a net gain of \$82 million (\$105 million before tax), or \$1.06 per share. The Company intends to sell the Texas City, Texas chemical plant and will close several operations, including the facilities at Columbia, Tennessee and Anniston, Alabama.

Subsequent to its acquisition by Monsanto, Searle sold its investment in Pearle Health Services, Inc. and its nonprescription pharmaceuticals business. 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.

Net sales of the divested and discontinued product lines in 1985 were \$931 million, principally in the Chemicals segment.

Management expects the restructuring program to be substantially complete by the end of 1986.

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.

Depreciation and Amortization

	1985	1984	1983
Depreciation and depletion	\$477	\$449	\$456
Amortization of intangible assets	88	7	4
Obsolescence	34	47	63
Total depreciation and amortization	\$599	\$503	\$523

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

Patents (\$1,219 million and \$33 million at December 31, 1985 and 1984, respectively) are being amortized over their legal lives (approximately 8 years in 1985). Other intangible assets (\$330 million and \$14 million at December 31, 1985 and 1984, respectively) are being amortized over their estimated useful lives (approximately 13 years in 1985). Goodwill (\$650 million and \$76 million at December 31, 1985 and 1984, respectively) is amortized over periods of 5 to 40 years.

Currency Translation

Most of Monsanto's ex-U.S. operations' 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. operations that operate in hyperinflationary economies, including Brazil, Mexico and Argentina, are translated at either current or historical exchange rates, as appropriate, and currency adjustments are included in net income.

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

Inventory Valuation

Inventories are stated at cost or market, whichever is less. Actual cost is used for raw materials and supplies, and standard cost, which approximates actual cost, is used for finished goods and goods in process. Standard cost includes 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 on cost of goods sold sooner than other inventory cost methods. The cost of other inventories (approximately 20 percent of all inventories) generally is determined using the first-in, first-out (FIFO) method.

Inventories at December 31, 1985 and 1984 would have been \$408 million and \$432 million, respectively, higher than reported if the FIFO method of inventory valuation (which approximates current cost) had been used for all inventories. Monsanto's LIFO inventory policies make it impracticable to identify inventories by classification (i.e., finished goods, goods in process, raw materials and supplies).

Oil and Gas Activities

Oil and gas exploration and production activities were accounted for using the successful efforts method.

Income Taxes

The components of income before income taxes were:

	1985	1984	1983
U.S.	\$(590)	\$442	\$419
Ex-U.S.	292	265	151
Total	\$(298)	\$707	\$570

The components of income tax expense were:

	1985	1984	1983
Current:			
Federal	\$ 44	\$ 72	\$103
State	13	21	6
Ex-U.S.	154	56	45
	211	149	154
Deferred:			
Federal	(338)	72	11
State	(21)	3	4
Ex-U.S.	(22)	44	(1)
	(381)	119	14
Tax effect of loss carryforwards			33
Total	\$(170)	\$268	\$201

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:

	1985	1984	1983
Depreciation, depletion and obsolescence	\$ 70	\$ 92	\$ 19
Restructuring program	(346)		
Intangible drilling and development costs	(98)	11	(3)
Capitalized interest	—	—	8
Other	(7)	16	(10)
Total	\$(381)	\$119	\$ 14

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

	1985	1984	1983
Federal statutory rate	(46)%	46%	46%
Lower ex-U.S. tax rates	(12)	(3)	(1)
Investment and other tax credits	(9)	(5)	(6)
Benefits attributable to export earnings	(3)	(2)	(3)
Dividends from ex-U.S. subsidiaries	9	—	—
Reversal of prior years' foreign tax credits	8		
Other	(4)	2	(1)
Effective income tax rate	(57)%	38%	35%

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 1985-1983 were \$10 million, \$30 million and \$26 million, respectively.

Income taxes have not been provided on \$371 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 (76,995,625, 80,909,755 and 82,215,156 in 1985-1983, respectively). Common share equivalents (116,247, 335,979 and 563,622 in 1985-1983, 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

	1985	1984	1983
Raw material and energy costs	\$2,557	\$2,522	\$2,345
Employee compensation and benefits	1,886	1,739	1,687
Current income and other taxes	435	363	354
Rent expense	92	80	83
Technological expenses:			
Research and development	470	370	290
Engineering, commercial development and patent	78	76	69
Total technological expenses	548	446	359
Interest expense:			
Operations	97	117	126
Searle acquisition	95		
Less capitalized interest	(14)	(17)	(30)
Net interest expense	178	100	96
Equity in affiliates' income	25	18	15
Foreign currency gains (losses) including equity in affiliates' currency gains and losses	(13)	2	5

Pension Plans

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

Pension costs are funded as accrued and include current service and amortization of unfunded prior service costs generally over periods of 10 to 30 years. Other postretirement benefits are not currently funded and are expensed as incurred.

Pension expense for all plans was \$85 million, \$116 million and \$131 million in 1985-1983, respectively. The 1985 decrease in pension expense principally resulted from the updating of actuarial assumptions and the change of the actuarial cost method for one plan, offset in part by the pension expense of Searle since its acquisition by Monsanto. During 1985, the Company changed its actuarial cost method for one of its principal plans from the entry age normal method to the projected unit credit method. The assumed rate of return used for funding and cost assumptions was increased from 7.5 percent to 8.5 percent for the two principal United States plans. The effect of these changes was to lower total pension cost by \$28 million.

The 1985-1983 expense recorded for other postretirement benefits was \$18 million, \$18 million and \$13 million, respectively.

Estimated benefit and asset information at year-end for Monsanto's pension plans is presented below. Net assets of the pension trusts were measured at fair value; and accumulated benefits were estimated from actuarial valuations, principally using the projected unit credit actuarial cost method.

	1985	1984
Actuarial present value of plan benefits:		
Vested	\$1,994	\$1,554
Nonvested	154	184
Accumulated benefits	2,148	1,738
Effect of projected future salary increases	318	312
Total	\$2,466	\$2,050
Plan assets at fair value	\$2,672	\$2,074

The actuarial present value of plan benefits in 1985 includes Searle's pension plans and additional benefits resulting from the Company's 1985 Special Incentive Retirement program and from plan amendments effective January 1, 1986.

United States salaried and hourly employees are covered by two principal plans. The actuarial assumptions also include an overall average annual salary increase of 6.5 percent for the salaried employees plan. The actuarial present value of plan benefits and plan assets included in the above table for the two principal United States plans were approximately

\$2,100 million and \$2,215 million, respectively, at December 31, 1985.

Short-Term Debt and Credit Arrangements

	1985	1984
Notes payable:		
Banks	\$ 130	\$ 43
Commercial paper	468	
Bank overdrafts	81	111
Current portion of long-term debt	25	123
Total	\$ 704	\$ 277
Maximum amount of notes payable and bank overdrafts outstanding at any month-end	\$1,962	\$176
Average notes payable and bank overdrafts outstanding	\$ 730	\$142
Weighted average interest rate during the year	9%	19%
Weighted average interest rate at December 31	9%	21%

To finance the acquisition of Searle, Monsanto entered into a \$3.0 billion bank credit agreement, which was subsequently reduced to \$2.0 billion. Of that credit agreement, \$500 million is a short-term facility expiring July 1986. Interest on amounts borrowed under this agreement is at the U.S. "prime" interest rate, or a margin above 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. At December 31, 1985, all of the short-term facility was unused.

In addition, certain ex-U.S. subsidiaries have aggregate short-term loan facilities of \$289 million, under which loans totaling \$130 million were outstanding at December 31, 1985. Interest on these loans is related to various ex-U.S. bank rates.

Long-Term Debt

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

	1985	1984
Industrial development bond obligations, weighted average interest rate of 7½%, due 1987 to 2021	\$ 264	\$252
Commercial paper to be refinanced on a long-term basis, weighted average rate of 8¼%	950	
10¼% notes due 1992	149	
4¾% promissory notes due 1993		39
9¼% sinking fund debentures due 1997	66	67
8½% sinking fund debentures due 2000	127	127
3¼% income debentures due 2002		77
4¼% income debentures due 2008		50
8¼% sinking fund debentures due 2008	169	169
11¼% sinking fund debentures due 2015	250	
Capitalized lease obligations	17	5
Other	95	38
Total	\$2,087	\$824

In November 1985, the Company repaid, prior to maturity, \$168 million principal amount of debentures and notes due 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.

Maturities and sinking fund requirements on long-term debt are \$25 million, \$23 million, \$28 million, \$27 million and \$27 million for 1986-1990, respectively.

The \$2.0 billion bank credit agreement used to finance the acquisition of Searle (described above) includes a \$1.5 billion intermediate-term facility expiring ratably from 1988 to 1993. At December 31, 1985, all of this facility was unused. In November 1985 and February 1986, the Company registered with the Securities and Exchange Commission \$1.0 billion aggregate principal amount of unsecured debt securities. Subsequently, \$400 million in 1985 and \$150 million in 1986 of those securities were issued and the proceeds were used to refinance short and intermediate-term borrowings. The remaining unissued debt securities may be issued in the future, depending on financing needs and market conditions.

Covenants under the bank credit agreement and certain loan agreements restrict maximum borrowings and dividend payments and require the maintenance of certain financial ratios. It is not anticipated that future borrowing needs will be affected by these restrictions. Of the Company's reinvested earnings, \$300 million were available for dividend payments at December 31, 1985.

■ Commitments and Contingencies

Commitments in connection with uncompleted additions to property and investments in affiliates were approximately \$166 million at December 31, 1985. Monsanto was contingently liable as guarantor of bank loans and for discounted customers' receivables totaling approximately \$88 million at December 31, 1985.

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.

■ Capital Stock

At December 31, 1985, there were 5,631,994 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 Monsanto common stock. A right will also be issued with each share of Monsanto common stock that becomes outstanding prior to the time the rights become exercisable or expire. If a person or group acquires a beneficial ownership of 20 percent or more, or announces a tender offer that would result in a beneficial ownership of 30 percent or more, of Monsanto's outstanding common stock, the rights become exercisable and each right will entitle its holder to purchase one share of Monsanto 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 Monsanto 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 Monsanto'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 the close of business on February 3, 1986, 76,783,448 rights were outstanding.

■ Stock Option Plans

At December 31, 1985, there were 2,871,626 shares under options outstanding for the Company's 1974 and 1984 Management Incentive Plans at prices ranging from \$26.16 to \$57.59. Options for 1,703,124 shares were exercisable at December 31, 1985. During 1985, 568,200 options were granted and 275,886 options, granted at prices ranging from \$24.25 to \$46.31 per share, were exercised. Under the 1984 Management Incentive Plan, 2,681,022 shares remain available for grant.

Stock appreciation rights (SARs) are authorized to be granted under both the 1974 and 1984 Plans, including retroactive grants for unexercised options. At December 31, 1985, SARs related to options for 792,365 shares were outstanding; of these, 387,524 were exercisable. During 1985, SARs related to options for 121,509 shares were granted and 91,246 were exercised.

Segment Information

Certain operating unit segment data for 1985-1983 appear on page 27 and are integral parts of the accompanying financial statements. The principal product lines included in each operating unit are shown in this segment data.

Sales between operating units are 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 businesses divested or discontinued that are included in the Chemicals segment were \$645 million.

Certain corporate expenses, primarily those related to the overall management of the Company, were not allocated to the operating units or world areas. Restructuring cost — net, interest expense, interest income and other income — net, as shown in the Statement of Consolidated Income, are the only reconciling items between operating income and income before income taxes. Nonoperating assets principally include investments, a portion of cash, time deposits and certificates of deposit, short-term securities and certain miscellaneous receivables.

Net sales by entities in each world area were:

	Unaffiliated Customers			Inter-Area (Between Monsanto Entities)		
	1985	1984	1983	1985	1984	1983
United States	\$4,824	\$4,914	\$4,596	\$ 529	\$ 534	\$ 526
Europe-Africa	1,076	945	924	163	207	188
Canada	268	278	259	5	9	6
Latin America	220	203	192	2	6	4
Asia-Pacific	359	351	328	21	33	25
Eliminations				(720)	(789)	(749)
Total consolidated	\$6,747	\$6,691	\$6,299	\$ —	\$ —	\$ —

Operating income and total assets by entities in each world area were:

	Operating Income (Loss)			Total Assets		
	1985	1984	1983	1985	1984	1983
United States	\$ 177	\$ 475	\$ 433	\$7,077	\$5,088	\$5,110
Europe-Africa	164	192	137	1,019	772	696
Canada	34	25	24	120	105	92
Latin America	6	4	(4)	232	178	180
Asia-Pacific	12	31	15	299	257	203
Eliminations	12	2	(35)	(259)	(253)	(362)
Corporate expenses	(54)	(52)	(49)			
Nonoperating assets				389	226	508
Total consolidated	\$ 351	\$ 677	\$ 521	\$8,877	\$6,373	\$6,427

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

	1985	1984	1983
Operating income	\$ 216	\$ 252	\$ 172
Restructuring cost — net	14		
Interest expense	(26)	(53)	(65)
Interest income	38	36	28
Other income — net	(20)	29	36
Income taxes (including extraordinary tax benefits of loss carryforwards)	(70)	(108)	(45)
Net income of consolidated ex-U.S. subsidiaries	\$ 152	\$ 156	\$ 126
Total operating assets	\$1,670	\$1,312	\$1,171
Total liabilities	847	519	470
Net assets of consolidated ex-U.S. subsidiaries	\$ 823	\$ 793	\$ 701

Financial Summary

(Dollars in millions, except per share)		1985 ¹	1984	1983 ²	1982 ^{3,4}	1981
Operating Results						
Net Sales		\$6,747	\$6,691	\$6,299	\$6,325	\$6,948
Operating Income		351	677	521	479	702
Net Income (Loss)		\$ (98)	\$ 439	\$ 402	\$ 352	\$ 445
As a Percent of Net Sales		(1)%	7%	6%	6%	6%
As a Percent of Average Shareowners' Equity		(3)%	12%	11%	10%	15%
As a Percent of Average Capital Employed ⁵		—%	10%	10%	9%	11%
Earnings per Share		\$ (1.27)	\$ 5.42	\$ 4.89	\$ 4.39	\$ 5.75
Year-end Financial Position						
Total Assets		\$8,877	\$6,373	\$6,427	\$6,077	\$6,069
Working Capital		899	1,395	1,535	1,503	1,486
Property, Plant & Equipment						
Gross		\$6,840	\$6,919	\$6,639	\$6,530	\$6,218
Net		3,034	3,374	3,284	3,313	3,184
Long-Term Debt		\$2,087	\$ 824	\$ 937	\$1,003	\$1,110
Shareowners' Equity		3,407	3,634	3,667	3,490	3,330
Current Ratio		1.4	2.2	2.3	2.6	2.4
Percent of Long-Term Debt to Total Capitalization		38%	18%	20%	22%	25%
Other Data						
Property, Plant & Equipment Additions		\$ 645	\$ 614	\$ 560	\$ 673	\$ 668
Depreciation and Amortization		599	503	523	439	263
Interest Expense		178	100	96	82	101
Research and Development Expense		470	370	290	264	233
Income Taxes		(170)	268	201	172	248
Stock Price	High	\$ 55¾	\$ 53¾	\$ 58¼	\$ 44½	\$ 43¾
	Low	40%	40%	37¼	28¼	29¾
Price/Earnings Ratio on Year-end Stock Price		—	8	11	9	6
Per Common Share						
Dividends		\$ 2.45	\$ 2.25	\$ 2.075	\$ 1.975	\$ 1.875
Shareowners' Equity		44.38	46.43	44.83	42.99	42.18
Common Shareowners		72,081	71,343	69,787	75,943	79,029
Common Shares Outstanding (in millions)		77	78	82	81	79
Employees		56,103	50,754	48,835	52,199	57,391

¹Net loss for 1985 includes net restructuring cost of \$341 million, or \$4.43 per share, and an extraordinary gain of \$30 million, or \$0.40 per share, from repayment of debt.

²Net income for 1983 includes extraordinary tax benefits of \$33 million, or \$0.41 per share, from the utilization of ex-U.S. loss carryforwards.

³Net income for 1982 includes an extraordinary gain of \$23 million, or \$0.29 per share, from an exchange of debt for common shares.

⁴In 1982, the requirements of Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation," were adopted.

⁵Capital 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 aftertax effect of interest costs.

Board of Directors	Committees of the Board	Officers
Richard J. Mahoney St. Louis President and Chief Executive Officer (Chairman of the Board and Chief Executive Officer)* Monsanto Company Dr. Louis Fernandez St. Louis Chairman of the Board (retiring as Chairman of the Board and Director)* Monsanto Company Dr. Donald C. Carroll Upper Darby, Pennsylvania Chairman CGW Data Services, Inc. C. Raymond Dahl San Francisco Retired Chairman of the Board Crown Zellerbach Corporation Francis J. Fitzgerald St. Louis Executive Vice President (Director, President and Chief Operating Officer)* Monsanto Company Richard I. Fricke Montpelier, Vermont Chairman and Chief Executive Officer National Life Insurance Company John W. Hanley North Palm Beach, Florida Retired Chairman of the Board and Chief Executive Officer Monsanto Company Earle H. Harbison, Jr. St. Louis Executive Vice President (Director and Vice Chairman of the Board)* Monsanto Company Howard M. Love Pittsburgh Chairman of the Board and Chief Executive Officer National Intergroup, Inc.	Dr. Jean Mayer Medford, Massachusetts President Tufts University Buck Mickel Greenville, South Carolina Vice Chairman, Fluor Corporation and Chairman of the Board Daniel International Corporation (a subsidiary of Fluor Corporation) Edward L. Palmer New York Retired Chairman of the Executive Committee Citicorp and Citibank, N.A. John S. Reed New York Chairman Citicorp and Citibank, N.A. William D. Ruckelshaus Seattle Attorney Perkins, Coie Dr. John B. Slaughter College Park, Maryland Chancellor University of Maryland at College Park Admiral Stansfield Turner 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 Francis J. Fitzgerald** Earle H. Harbison, Jr.** Robert G. Potter* Nicholas L. Reding Dr. Howard A. Schneiderman Francis A. Stroble *Effective April 1, 1986 **Until April 1, 1986	Audit Committee Dr. Jean Mayer, <i>Chairman</i> Buck Mickel John S. Reed Dr. John B. Slaughter Margaret Bush Wilson Corporate Social Responsibility Committee Admiral Stansfield Turner, <i>Chairman</i> Dr. Louis Fernandez Dr. Jean Mayer William D. Ruckelshaus Dr. John B. Slaughter Executive Committee John W. Hanley, <i>Chairman</i> Dr. Louis Fernandez Richard J. Mahoney Margaret Bush Wilson Executive Compensation and Development Committee Howard M. Love, <i>Chairman</i> Richard I. Fricke John W. Hanley Buck Mickel Finance Committee Edward L. Palmer, <i>Chairman</i> Dr. Donald C. Carroll C. Raymond Dahl John W. Hanley Richard J. Mahoney Margaret Bush Wilson Nominating Committee Buck Mickel, <i>Chairman</i> C. Raymond Dahl Howard M. Love Pension and Savings Funds Committee Richard I. Fricke, <i>Chairman</i> Dr. Donald C. Carroll Dr. Louis Fernandez Admiral Stansfield Turner President and Chief Executive Officer Richard J. Mahoney¹ Chairman of the Board Dr. Louis Fernandez² Executive Vice Presidents Francis J. Fitzgerald³ Earle H. Harbison, Jr.⁴ Nicholas L. Reding Senior Vice Presidents Robert L. Berra Harold J. Corbett Dr. Howard A. Schneiderman Senior Vice President and Chief Financial Officer Francis A. Stroble Senior Vice President, Secretary and General Counsel Richard W. Duesenberg Group Vice Presidents Thomas L. Gossage Robert G. Potter Donald H. Swan Vice Presidents Earl N. Brasfield Leonard A. Cohn Stewart D. Daniels Dr. S. Allen Heininger John F. Hussey Martin J. Kallen Thomas H. Lafferre James H. Senger David L. Sliney Vice President and Controller Lawrence B. Skatoff Treasurer B. Clare Harris Effective April 1, 1986: ¹ To become Chairman of the Board and Chief Executive Officer. ² Retiring as Chairman of the Board. ³ To become President and Chief Operating Officer. ⁴ To become Vice Chairman of the Board.

Shareowner Information

Annual Meeting

The next Annual Meeting of the shareowners of Monsanto Company will be held at 1:45 p.m., Friday, April 25, 1986, in K Building at the Company's General Offices, 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 1985 Form 10-K Report filed with the Securities and Exchange Commission; 1985 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

Quarterly Common Stock Data

	Stock Price		Dividend
	High	Low	
1985			
First	\$46¼	\$41½	\$0.575
Second	49	42½	0.625
Third	55½	44½	0.625
Fourth	49¾	40¾	0.625
1984			
First	\$53¾	\$41½	\$0.525
Second	49	42	0.575
Third	51	41¾	0.575
Fourth	46¾	40¾	0.575
1983			
First	\$46¼	\$37½	\$0.50
Second	47	39¾	0.525
Third	58½	42¾	0.525
Fourth	58¾	50¼	0.525

Monsanto Company
800 North Lindbergh Boulevard
St. Louis, Missouri 63167

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