

# **Monsanto**

1994 ANNUAL REPORT  
TO SHAREOWNERS

**In 1994, we showed  
the financial power of  
our strong core products.**

**This report shows how  
these products and  
new ones will keep the  
drive going.**

MONS 354708

# Monsanto Demonstrates Commitment to Shareowner Value

Monsanto Company's strength throughout its 94-year history has been its ability to turn superb science into products that improve the quality of life. Our 1994 performance was no exception.

Strong core products in agriculture, performance chemicals, pharmaceuticals and food ingredients continued to show their power in the marketplace. New products added momentum to our lineup of well-known brands, which include Roundup herbicide, Ortho lawn-and-garden products, Wear-Dated carpet, Saflex plastic interlayer, Calan calcium channel blocker and NutraSweet brand sweetener.

These key products, successful new products, and a continuing focus on reducing costs fueled our outstanding financial performance in 1994. We reached our financial targets and returned excess cash to shareowners through dividends and share repurchases.

## Return on Shareowners' Equity Hits Target

Monsanto achieved a 21.4 percent return on shareowners' equity (ROE)

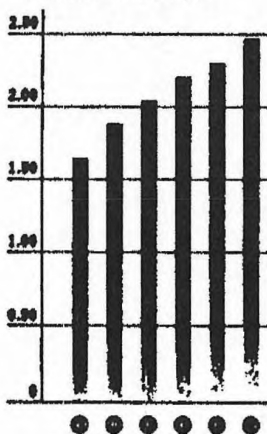
in 1994. By doing so, we passed a major milestone in our financial goal to reach and sustain a 20 percent ROE.

## Net Income Grows 26 Percent

Net income in 1994 was \$622 million, a 26 percent increase from net income in 1993 and the second highest in Monsanto's history. Earnings per share of \$5.32 set a record.

## Dividend Increases for 22nd Year

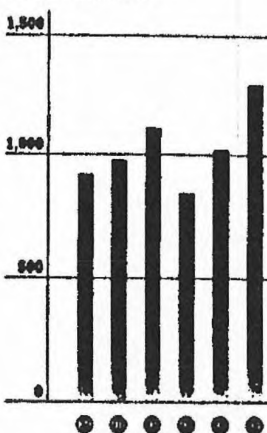
Dividend per Share  
in dollars, per calendar year



▲ We increased our dividend to \$2.52 per share on an annual basis in April 1994. Monsanto has paid quarterly dividends on its common shares without interruption since 1928 and has increased the dividend in each of the past 22 years. Since 1989, our dividend on a calendar year basis has increased 49.7 percent.

## Cash Flow Remains Strong

Cash Provided  
by Continuing Operations  
Dollars in millions



▲ Cash provided by continuing operations increased 27 percent in 1994, reaching \$1.3 billion. Since 1989, Monsanto has generated an average of more than \$1 billion in cash from continuing operations annually. Once ongoing business needs are met, we use excess cash to increase our dividend and to repurchase shares while maintaining favorable credit ratings.

## Share Repurchases Top 55 Million

We continued to repurchase shares of Monsanto stock in 1994 through several authorized share repurchase plans. Since June 1987, we have acquired 55.8 million shares through repurchase plans and for ongoing compensation and benefit plans.

## Cost Savings Contribute to Operating Income

Monsanto continues to take actions designed to make its worldwide operations more focused, productive and cost effective. Cost savings initiatives contributed approximately \$250 million to operating income in 1994. These savings are expected to continue. Additional cost cutting efforts will be implemented as we respond to increased global competition and higher customer expectations.

## Compensation Continues To Be Tied to Shareowner Interests

We continued in 1994 to establish direct links between the interests of our shareowners and the compensation of our employees. An increasing portion of employees' compensation is based on achieving certain performance goals that are tied to shareowner value. In 1994, performance stock options were granted to 1,200 eligible employees worldwide. These options were tied to Monsanto's achieving its 20 percent ROE target.

| (Dollars in millions, except per share)             | 1994    | 1993    | 1992      | % Change<br>1994 vs. 1993 |
|-----------------------------------------------------|---------|---------|-----------|---------------------------|
| Net Sales .....                                     | \$8,272 | \$7,902 | \$7,763   | 5%                        |
| Income (Loss) from Continuing Operations .....      | \$ 622  | \$ 494  | \$ (126)  | 26%                       |
| Net Income (Loss) .....                             | \$ 622  | \$ 494  | \$ (88)   | 26%                       |
| Per Share:                                          |         |         |           |                           |
| Income (Loss) from Continuing Operations .....      | \$ 5.32 | \$ 4.10 | \$ (1.01) | 30%                       |
| Net Income (Loss) .....                             | \$ 5.32 | \$ 4.10 | \$ (0.71) | 30%                       |
| Dividend .....                                      | \$ 2.47 | \$ 2.30 | \$ 2.20   | 7%                        |
| Shareowners' Equity .....                           | \$26.43 | \$24.62 | \$24.95   | 7%                        |
| Depreciation and Amortization .....                 | \$ 561  | \$ 572  | \$ 765    | (2)%                      |
| Cash Provided by Continuing Operations .....        | \$1,300 | \$1,022 | \$ 848    | 27%                       |
| Research and Development Expenses .....             | \$ 609  | \$ 626  | \$ 651    | (3)%                      |
| Return on Shareowners' Equity (ROE) .....           | 21.4%   | 16.9%   | (2.6)%    | 27%                       |
| Percent of Total Debt to Total Capitalization ..... | 37%     | 38%     | 36%       | (3)%                      |
| Shareowners (year-end) .....                        | 53,694  | 56,601  | 60,074    | (5)%                      |
| Shares Outstanding (year-end, in millions) .....    | 112     | 116     | 120       | (3)%                      |
| Employees (year-end) .....                          | 29,354  | 30,019  | 33,797    | (2)%                      |

### What Shareowners Will See in This Report

In 1994, we demonstrated how important our core products and our commitment to reducing costs are in meeting our financial targets. This report gives shareowners a detailed review of how we achieved this success.

But shareowners also want to know what we plan for the future. In this report, our investors will find our view of the business issues and economic climate we will face in the next two to four years. We also give an outlook for each of our business areas, with a focus on how new products will complement our core products as we continue to deliver value to our shareowners.

### Letter to Shareowners 2

Chairman and Chief Executive Officer Richard J. Mahoney discusses how Monsanto's current products delivered strong financial results in 1994 and how the growth potential of new products will keep the drive going.

### Current and Prospective Products 5

This page summarizes our foundation of strong products and those products currently being developed for the future.

### Monsanto at a Glance 6

This section provides an overview of Monsanto's four operating units. It summarizes what each unit does, how each contributed to the company's 1994 results, the business climate facing each unit, and what that unit must achieve in the future.

### 1994 Review, Business Climate and Outlook of Operations 8

An in-depth look at each of Monsanto's operating units in this section includes: 1994 highlights, a description of external business factors, and a discussion of what to expect in the future from each of Monsanto's key businesses.



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This section introduces Monsanto's new organizational structure with brief information on each business unit and its president.

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### Financial Section 26

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## Core Strength in Creative Science Provides Foundation for New Growth

**I**t was a year to savor for a while — and then move on from there. In 1994, Monsanto showed many of its great strengths — but not all. There is much more to come!

Monsanto earned \$622 million in net income in 1994, up from \$494 million in 1993. Calculated without one-time gains and losses in both years, net income from operations would have been \$623 million for 1994 vs. \$479 million for 1993. Return on shareowners' equity in 1994 reached 21.5 percent on the same operational basis, compared with 21.4 percent on reported income.

It was a year in which the great core strength of Monsanto, its creative chemistry, thrived in every part of our product mix, whether it was our fibers, our agricultural businesses or our products for industrial and consumer uses. Investments made in biotechnology

over many years began to pay off. This long-term developmental funding has been a target of criticism by some people who question the time it has taken for commercialization. It has taken a long time. But in many cases, we and others were "writing the rules" for

**Monsanto showed  
many of its great  
strengths in 1994  
— but not all.**

this new science as we went along, particularly regarding applications in food and plants. Regulatory procedures have now been established for most biotechnology uses and are in process for those remaining.

Monsanto's first product in agricultural biotechnology, *Posilac* bovine somatotropin (BST), which increases the efficiency of milk production in cows, was successfully introduced in the United States in 1994. It has already been used by producers who own approximately 30 percent of the U.S. dairy herd, and its popularity is becoming established. *Posilac* has proved the adage that getting the first olive out of the bottle is the hardest; the rest come much easier. This is now being demonstrated in crop applications of biotechnology. For example, during 1994, Monsanto took the last steps toward commercialization for an array of new agricultural products — better fresh produce, crops internally protected against pests, and crops that are tolerant of *Roundup* herbicide. Some of them will be on the market as early as 1996. It is also



◀ Richard J. Mahoney (left) will retire as chairman and chief executive officer on March 31, 1995. He will be succeeded by Robert B. Shapiro, currently president and chief operating officer.

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now possible for the first time to think of a wide range of new industrial uses for agricultural products.

To capitalize on our leadership in agricultural biotechnology, we have completed or have in progress several alliances designed to capture an appropriate share of the market value added by our technology. These range from joint ventures in fresh produce, cotton and grains, to joint development programs, to the licensing of specific traits in for our use or out for use by others who pay Monsanto royalties. It has been a decade of investment in biotechnology by our shareowners, but it will be a major contributor for decades to come!

The Ortho lawn-and-garden products business, acquired in 1993, achieved its promised returns in its first full year under Monsanto ownership. We are now expanding this attractive opportunity internationally. Our newest corporate addition, Kelco, the specialty chemicals business we acquired from Merck & Co. Inc., offers impressive sales and earnings growth. It is a good fit with several of our business units. In this case, we can offer almost instant gratification to our shareowners. We paid a full, but not excessive, price for Kelco, considering its excellent margins and top performance in its field of performance additives for food, industrial, agricultural and pharmaceutical uses. Several new applications at Kelco are ready for major growth. Significant cost savings, as well as sales synergies, are available through consolidation. It will prove to be an excellent addition, and the proof will come soon.

**A**n earlier major move, the combined acquisition of The NutraSweet Company and Searle in 1985, as viewed now a decade later, has paid off for shareowners, but not in the way we originally planned. NutraSweet, our food ingredients company, earned back the entire cost of the combined acquisition, achieving our corporate requirement for rate of return. But NutraSweet's earnings carried Searle, our pharmaceutical business, throughout the period. NutraSweet continues to perform well despite the pressures of worldwide patent expirations for its key product, aspartame. Searle has had significant success in marketing, in licensing products from outside, and in obtaining regulatory approvals. But, clearly, the Searle portion of the acquisition has been an underperformer. This is

only partly because health care has become more price-competitive during the decade. A more important reason is that Searle's own research and development (R&D) pipeline has not yet been a significant commercial success.

Searle will be an important source of near-term earnings growth for Monsanto because of its products already on the market and others close to commercialization. However, the multiplier will apply to a much smaller Searle earnings base than we had hoped. Having looked carefully at all the options available with Searle, we believe it makes sense to push forward: to accelerate earnings against demanding timetables, to continue to seek alliances, to bring to market the promising products from our emerging pipeline of biotechnology-based pharmaceuticals, and then to make a future determination about Searle's ultimate direction. While these options may not satisfy everyone today, in the studied judgment of Monsanto's

management, these steps offer the best potential return given what we see developing both internally and externally. Searle has the ability to meet Monsanto's financial standards within three years and the potential to go well beyond them after that with a successful biotechnology-based product pipeline.

**A decade of investment has ensured that biotechnology will be a major contributor for decades to come.**

The promise of our pharmaceutical biotechnology pipeline can be glimpsed in two recent alliances. The first is a 1994 agreement with Chiron Corp., a biotechnology firm based in California, to collaborate in developing a Searle product called tissue factor pathway inhibitor. This agent prevents coagulation during microvascular surgery. Negotiations are also being completed with an international pharmaceutical company for codevelopment rights in its home market for Searle's oral antiplatelet drug, which prevents the buildup of blood clots. Upfront and milestone payments

will be received by Searle. Both of these drugs are now in human clinical trials. Progress on near-term financial performance and R&D pipeline advancement at Searle will be driven hard and measured carefully as we determine the scope of our future involvement in pharmaceuticals.

**Cost cutting  
and the redesign  
of our work are  
now ingrained  
in the company.**

During 1994, cost cutting and the redesign of our work received major attention, as they have for several years. These are not fads to get through to the next fad. These processes are now ingrained in the company, and they have served us well. We have changed, and will continue to change, the

nature of the work to be done and how we organize to do it. Customers have put fierce, global pressure on prices for those highly competitive parts of our product portfolio. This global pressure will only intensify, so we must continue our own relentless drive to reduce costs.

With this kind of pressure in the workplace, our job in management is to ensure that Monsanto's people will have compensating professional and financial rewards, and that our work environment will be freer and more responsive to their individual and team efforts. We can — and must — ensure that extraordinary achievement is extraordinarily rewarded.

As I look back on more than a decade as your chief executive officer, it has been throughout a period of rethinking and remaking the corporation. Although we were always a company with several bright lights, we were once known chiefly as a commodity chemicals company. Time and external events passed that concept by as an option for Monsanto. The move away from the past was sometimes a wrenching one for employees and shareowners alike. But the old lights shine more brightly now, and new ones will become apparent to those who now participate, as they were for those who were "present at the creation." Shareowners who believed in what we were about were justly rewarded, as measured by Monsanto's total return to shareowners (share price appreciation plus

reinvested dividends) compared with the total return of the general stock market and of our peer chemical group over that time. Those who have become shareowners more recently or who are considering Monsanto should see the attractive prospects for this company and the promise of so much more to come.

This is a powerhouse company in agricultural biotechnology, an important addition to our strength in agricultural chemicals. Our core chemical businesses are very strong. Our acquisitions bring new sources of strength and new platforms for growth, and the growth in these new areas is accelerating. Monsanto people around the world are dedicated to making it happen. It has been a joy to observe their capability and energy over the years. Participating with them has been one of the great privileges of my life.

**I**n my first letter to shareowners in 1983, I wrote: "We harbor no illusions that the course ahead will be easy as we face swiftly changing market demands, increasing competition, accelerating technological challenges, and escalating public expectations. Nevertheless, our aspiration to excel serves as a unifying force in a time of divisive complexities. Our company is astir with a renewed sense of optimism, and indeed a spirit of excitement." Now, a decade later, neither the challenges nor the sense of optimism and excitement has changed.

In April 1995, a new management team led by Bob Shapiro will guide Monsanto. The development of this team has been both a personal priority and a personal source of pride. They no doubt will confront changes in the business climate, will see new ways to do things, and will seek and find new directions not now obvious. My predecessor gave me that chance. I pass that opportunity on to them with great confidence.

It was a year to savor for a while — and then move on!



Richard J. Mahoney  
Chairman and Chief Executive Officer

March 6, 1995

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## New Products Will Complement Our Portfolio

New products with growth potential will complement our core products in the coming years. Major current profit contributors are listed below. They are followed by possible contributors to the company's future success now in our product pipeline. We constantly

reassess our potential products and move only the most promising down the commercialization track. Some of these products may never be marketed, and new candidates may be added. Several of the products listed below are discussed on pages 8-23 and 34-39 of this report.

### At the end of 1994, our key products were:

- Roundup and other glyphosate-based nonselective herbicides for use in agricultural, industrial, turf and lawn-and-garden markets
- Harness, Harness Xtra, Bullet, Lasso and other acetanilide-based corn herbicides
- Ortho lawn-and-garden products
- Avadex BW, Far-Go and other triallate-based herbicides
- Nylon fibers primarily for use in carpet and tire production and nylon intermediates for use in nylon fibers and resins
- Saflex plastic interlayer for automotive windshields and laminated architectural glass
- Acrilan acrylic fiber for home furnishings and apparel
- Phosphorus and its derivatives for use in a variety of consumer products, such as cosmetics, detergents and food additives
- Lustran, Vydine and other plastics for appliance and vehicle parts
- Rubber chemicals for tires and other rubber products
- A variety of specialty chemical products
- that are sold to automotive, housing and consumer markets
- Calan calcium channel blocker to treat hypertension
- Daypro once-a-day arthritis treatment
- Cytotec ulcer preventive drug
- Ambien short-term treatment for insomnia
- Spironolactone drugs for high blood pressure
- NutraSweet brand sweetener and other aspartame-based food ingredients
- Equal, Canderel and NutraSweet Spoonful brand tabletop sweeteners

### Recently approved or introduced products expected to contribute to our financial success in the next few years include:

- Posilac bovine somatotropin (BST) for increased efficiency of milk production
- Permit, Manage and Semptra sulfonylurea-based herbicides to control weeds in corn, turf, sugar cane and grain sorghum
- Saflex plastic interlayer for improved performance in glass lamination of windshields
- Acrilan acrylic fiber specifically designed for craft yarn
- Sorbalite polymeric ultraviolet (UV) light blockers that keep fabrics, flooring and plastic films from fading, yellowing and degrading
- Scratch-resistant coatings for glasses and for bar-code window scanners used in retail checkout stations
- Electron metallized materials to shield electronic devices from radio-frequency interference
- Vydine nylon molding resins for flame-retardant thermoplastics
- Lustran Guardian ABS thermoplastic for refrigerator insulation that reduces ozone depletion compared with previous insulations
- Santotac MRS tackifier for floorings
- Arthrotec arthritis treatment

### Products currently under development or pending approval that we expect to put on the market before the end of 1997 are:

- Delayed-ripening tomatoes
- Crops that are tolerant of Roundup herbicide, including Roundup Ready canola, cotton and soybeans
- NewLeaf insect-protected potatoes
- Insect-protected cotton with the Bollgard gene
- Genesis plant growth regulator to aid in hybridizing wheat crops
- Sanzosol dimethyl ester solvents for paint removers and cleaning solutions that biodegrade easily
- Verapamil OROS nighttime hypertension treatment

### Potential products that may be launched after 1997 include:

- Insect-protected corn
- Virus-protected potatoes
- Higher-solids potatoes with improved processing properties
- Crops that are tolerant of Roundup herbicide, including Roundup Ready corn, oilseed rape and sugar beets
- Herbicide for control of grasses and broadleaf weeds in wheat crops
- Herbicide for control of grasses and broadleaf weeds in European cereal crops
- Fungicide for control of take-all disease in wheat
- Fungicide for control of leaf and ear diseases in cereal crops
- Nematicide for control of roundworms
- Plants that produce biodegradable plastic polymers
- Industrial fluids, plastics, plasticizers and other products that improve performance characteristics, such as strength and flexibility, of customers' products
- Tissue factor pathway inhibitor (TFPI) to treat complications during microvascular surgery
- IL-3 synthokine to help chemotherapy patients replenish white blood cells and platelets more rapidly
- Oral antiplatelet to prevent or inhibit blood clots from forming after bypass surgery or angioplasty
- Eliprodil stroke treatment
- COX-2 arthritis treatment
- Epoxymexrenone for the treatment of hypertension, congestive heart failure and cirrhosis
- Sweetener 2000 high-intensity sweetener



| Operating Unit | Description | 1994 Results |
|----------------|-------------|--------------|
|----------------|-------------|--------------|

|                                                                                                                                                       |                                                                                                                                                                                                                                                               |                                                                                                                                   |                                                                                                                                           |                                                                                                                                                                                                                                                                        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>The Agricultural Group</b><br><br>Also read pages 8-11 and 34-35. | The Agricultural Group develops and markets crop protection products, lawn-and-garden products, and products enhanced by biotechnology that improve food production and enhance environmental quality in agricultural, industrial, turf and residential uses. | <b>Net Sales</b><br>In millions<br><br>1993 1994 | <b>Operating Income</b><br>In millions<br><br>1993 1994 | Operating income for The Agricultural Group increased by 19 percent to a record \$476 million in 1994. New product sales, a full year of lawn-and-garden sales, and record volumes for Roundup herbicide boosted overall sales to a record \$2.2 billion for the year. |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

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| <b>The Chemical Group</b><br><br>Also read pages 12-15 and 36-37. | The Chemical Group manufactures and markets performance materials — including fibers, plastics, process chemicals, Saflex plastic interlayer, and phosphorus and its derivatives — that are used by customers to make a wide range of consumer and industrial goods. | <b>Net Sales</b><br>In millions<br><br>1993 1994 | <b>Operating Income</b><br>In millions<br><br>1993 1994 | The Chemical Group generated \$304 million in operating income in 1994, an 8 percent decline from 1993 results. Adjusted for nonrecurring items in 1993 and 1994, operating income would have improved almost 17 percent in 1994. Cost savings and higher volumes were partially offset by higher raw material prices. |
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|------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Searle</b><br><br>Also read pages 16-19 and 37-38. | Searle develops and markets prescription pharmaceuticals. Its products include medications to relieve the symptoms of arthritis, to control high blood pressure, to relieve insomnia, to prevent the formation of ulcers, and to treat certain infections. | <b>Net Sales</b><br>In millions<br><br>1993 1994 | <b>Operating Results</b><br>In millions<br><br>1993 1994 | Increased sales of new products helped Searle generate \$72 million in operating income in 1994, after posting an operating loss in 1993. Net sales of \$1.7 billion set a record for the pharmaceutical unit. |
|------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

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| <b>The NutraSweet Company</b><br><br>Also read pages 20-23 and 39. | The NutraSweet Company manufactures and markets sweeteners, including NutraSweet brand sweetener, and Equal and NutraSweet Spoonful tabletop sweeteners, and other food ingredients. | <b>Net Sales</b><br>In millions<br><br>1993 1994 | <b>Operating Income</b><br>In millions<br><br>1993 1994 | In 1994, The NutraSweet Company delivered \$139 million in operating income, a decrease of 4 percent from income in 1993. Expected lower average selling prices and lower volumes were partially offset by lower expenses. |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|



## Business Climate

In the long term, agricultural productivity must improve to feed a growing population while providing farmers an economic return. In the short term, developing economies and conservation tillage techniques are creating new markets for agricultural products.

## Outlook

- Increase income from Roundup herbicide by expanding its use in conservation tillage applications and in emerging international markets.
- Increase income from new, more effective crop protection products that enhance environmental quality and are targeted for use on major crops.
- Increase income from Solaris lawn-and-garden products with expansions into new consumer segments and new countries.
- Successfully commercialize biotechnology products that will increase food productivity and quality.
- Continue to increase sales of and income from *Posilac* bovine somatotropin.

For high-performance chemical manufacturers and most of their customers, the next two to four years will be a time of intense competition in the developed economies of Japan, Europe and North America. Those years will also be a time of establishing positions in emerging economies worldwide.

- Generate profitable growth in existing product lines through cost savings, new capacity, joint ventures and product line extensions.
- Successfully commercialize emerging technologies that add value for customers.
- Generate new income through strategic acquisitions of synergistic businesses.
- Continue to use business redesign and other productivity measures to increase income.

Generic competition, health care legislative initiatives, and managed care and group purchasing have created a cost conscious environment for pharmaceuticals. In this climate, the need is greater than ever for innovative drugs that satisfy unmet health care needs or offer alternatives to more costly treatments.

- Fulfill growth opportunities in the managed health care environment.
- Successfully introduce patent-protected products in global markets.
- Improve research and development productivity to bring to market unique treatments that address unmet health care needs.

Sugar remains the dominant sweetener in the world. But growth is available for the makers of high-intensity sweeteners as their customers grow internationally and as nondiet food manufacturers expand their use of high-intensity sweeteners.

- Expand global market share of high-intensity sweeteners for tabletop and ingredient uses.
- Increase the use of *NutraSweet* brand sweetener in new nondiet applications.
- Continue development of the next-generation, high-intensity sweetener and other innovative food ingredients.

## 1994 Review: Agricultural Group Delivers Record Income on New Product Sales, Higher Volumes for Roundup Herbicide

The Agricultural Group develops and markets crop protection products, lawn-and-garden products, and products enhanced by biotechnology that improve food production and enhance environmental quality in agricultural, industrial, turf and residential uses. In 1994, operating income increased by 19 percent to a record \$476 million on the strength of new product sales, a full year of lawn-and-garden sales, and record volumes for Roundup herbicide.



The Agricultural Group was a model growth strategy in action in 1994. Volumes for Roundup herbicide — now entering its third decade on the market — set a record. Two new products were successfully introduced, five herbicides received regulatory approval, and the first full year's sales from the 1993 acquisition of the Ortho lawn-and-garden products were added.

Worldwide volumes for Roundup increased significantly for the year, mainly on the strength of sales related to conservation tillage. Farmers who use conservation tillage plow less and rely more on the judicious use of herbicides to eliminate weeds. They then plant into the stubble of the previous crop.

The growing global popularity of conservation tillage extended to an estimated 7 percent to 10 percent of suitable farmland in 1994. Many farmers choose Roundup for conservation tillage because of its performance and economics.

### New Products Drive Growth

The Agricultural Group laid foundations for new growth in 1994 by successfully introducing Posilac bovine somatotropin (BST) and Harness herbicide in the United States.

Volumes for Roundup Herbicide  
By percent 1990-1994



Posilac increases the efficiency of milk production in cows. After one year on the market, roughly 13,000 U.S. dairy producers have purchased Posilac. Monsanto estimates that those producers own approximately 30 percent of U.S. dairy cows. These sales helped the Protiva animal sciences unit nearly break even for the year.

Two herbicides approved for use in the United States during 1994 strengthen Monsanto's position in the highly competitive corn herbicide market. Harness herbicide, approved in March, and Harness Xtra premix herbicide, approved in October, can be applied

at lower use rates than many other herbicides.

In December 1994, Permit herbicide for control of sedges and broadleaf weeds in corn and grain sorghum, and Manage herbicide for nutsedge control in turf were approved for use in the United States. In October 1994, Sempra herbicide was approved in Australia for nutsedge control in turf. This product was also approved in December 1994 for nutsedge control in sugar cane in Brazil. The active ingredient in all of these herbicides, halosulfuron, offers users effective weed control with rates as low as one-half of an ounce of active ingredient per acre.

Solaris completed its first full year of manufacturing and marketing the line of Ortho lawn-and-garden products acquired from Chevron Chemical Co. in May 1993. During 1994, Solaris concentrated on cutting costs and on revamping certain product lines to improve sales.

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# Improving Productivity Tops Agriculture's Business Climate Challenges

**In the long term, agricultural productivity must improve to feed a growing population while providing farmers an economic return. In the short term, developing economies and conservation tillage techniques are creating new markets for agricultural products.**

 A rapidly expanding global population requires an increasing supply of food, but the supply of suitable farmland is limited. A priority for the agricultural industry, then, is to provide new ways for farmers to increase their productivity. Crops developed through biotechnology to increase yields, improve processing characteristics, or lower production costs offer great promise for improving efficiency.

At the same time, economic development in China, India and Latin America is opening new agricultural markets for traditional crop protection products. And the trend toward conservation tillage continues to grow worldwide, providing significant market growth. Conservation tillage encourages

▼ A major challenge for agriculture is to improve productivity dramatically because the amount of available farmland cannot expand enough to feed the world's rapidly growing population. New products that increase yields, improve the processing characteristics of food, or lower production costs will be important contributors to productivity enhancements.

reduced plowing and the judicious application of herbicides to control weeds. Approximately 90 percent of the world's farmland suitable for conservation tillage remains to be converted to this technique. For

herbicide manufacturers, this untapped potential means significant opportunities for sales growth.

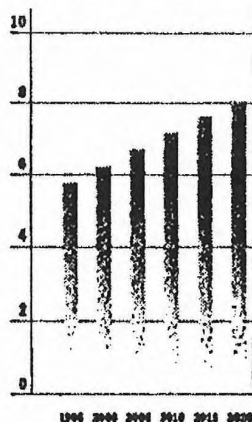
Whether the issue is efficiency of production, economic development or conservation tillage, society expects that all new products will preserve the environment. The agricultural industry is responding to this expectation with herbicides and biotechnology products that reduce the resources required to produce, market and use traditional crop protection products.

In this climate, agricultural companies that have the products and global infrastructures to serve developing economies and the conservation

**World Population  
Growth Estimate**

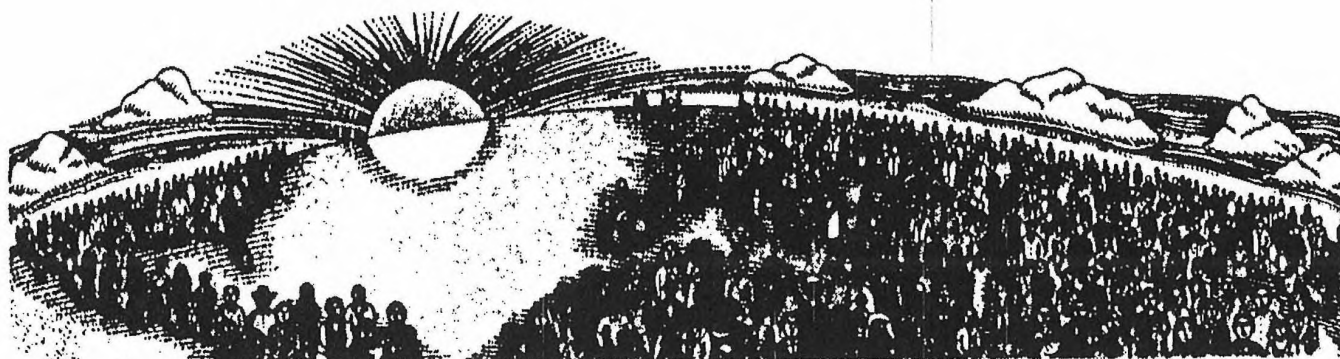
In billions

Source: United Nations



▲ By 2020, the global population is expected to increase by more than 40 percent, surpassing the 8 billion mark. During the same time, the amount of available farmland is expected to grow at a far slower pace.

tillage trend can benefit in the short term. In the long term, those companies with world-class abilities to develop and commercialize products that increase the efficiency of production while enhancing the environment should profit.





## New Products Create a Bright Outlook for The Agricultural Group

To achieve the full profit potential of key products and to develop new products that will contribute to shareowner value, The Agricultural Group intends to:

- Increase income from Roundup herbicide by expanding its use in conservation tillage applications and in emerging international markets.
- Increase income from new, more effective crop protection products that enhance environmental quality and are targeted for use on major crops.
- Increase income from Solaris lawn-and-garden products with expansions into new consumer segments and new countries.
- Successfully commercialize biotechnology products that will increase food productivity and quality.
- Continue to increase sales of and income from Posilac bovine somatotropin.



The Agricultural Group's current products will be complemented by several biotechnology products that are on schedule to enter the marketplace during the next four years. Together, this array of products will help address agriculture's long-term needs: producing abundant food economically, while enhancing environmental quality.

### Growth Opportunities Remain for Roundup Herbicide

Roundup herbicide is expected to continue its strong volume increases worldwide despite generic competition in certain markets outside the United States. Conservation tillage will continue to be a growth area. Although it is well-established in Brazil, Australia, Argentina and the United States, conservation tillage is currently used on only 7 percent to 10 percent of suitable farmland worldwide, according to Monsanto estimates. Roundup is the herbicide of choice for conservation tillage because it is effective and cost efficient.

In addition to the large conservation tillage growth opportunity for Roundup, The Agricultural Group is strengthening local infrastructures to serve emerging markets in Asia, Latin America, Central Europe and the former Soviet Union. Sales in these markets, plus the eventual additional sales of Roundup in connection with crops being developed to be tolerant of Roundup, could be substantial.

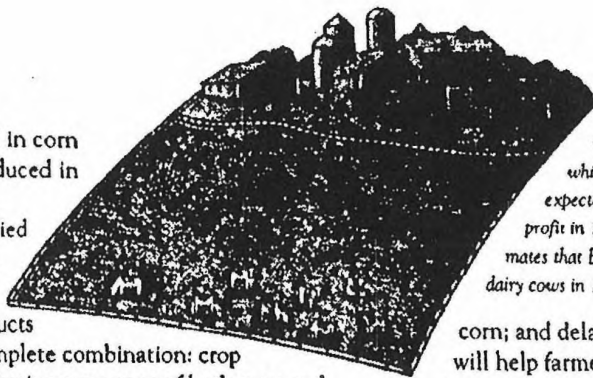
### New Products Strengthen Corn Herbicide Portfolio

Permit herbicide for sedge and broadleaf

◀ Soybeans with the Roundup Ready gene were developed through biotechnology to tolerate Roundup herbicide. These soybeans will allow farmers such as Warren Stemmle (left) to use the herbicide on growing soybeans to control weeds that otherwise would reduce yields. After applying Roundup to growing Roundup Ready soybeans, farmers can reduce the future cost of applying other herbicides because the natural canopy of the plants discourages additional weed growth. Monsanto scientist Barb Wells (right) leads a development team that is preparing for the product's international introduction.



weed control in corn will be introduced in 1995. When Permit is applied after Harness herbicide, the two products provide a complete combination: crop safety and effective treatment of both grass and broadleaf weeds in corn. These new products should allow The Agricultural Group to compete more effectively in the weed control market for North America's largest cash crop.



◀ Sales of Posilac bovine somatotropin (BST), which increases the efficiency of milk production, are expected to help the Protiva animal sciences unit turn a profit in 1995. The U.S. Department of Agriculture estimates that BST will be used on 12 percent of the country's dairy cows in 1995.

corn; and delayed-ripening tomatoes. These products will help farmers improve yields and reduce overall use rates of crop protection products.

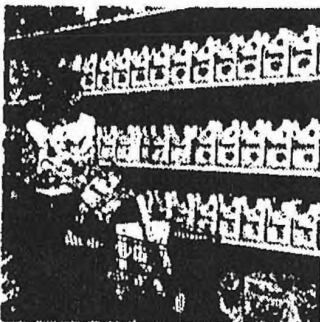
Roundup Ready crops will offer excellent weed control with outstanding crop safety, environmental benefits and cost advantages. Crops that are tolerant of Roundup have the added advantage of stimulating additional volumes of this top-selling herbicide. Insect-protected crops will let farmers reduce their use of insecticides, providing a convenient and effective alternative for controlling major insect pests. Delayed-ripening technology will add 10 to 15 days to the shelf life of tomatoes, allowing them to ripen on the vine

and develop full flavor before being picked and shipped.

Aggressive marketing of Posilac bovine somatotropin, which improves the efficiency of milk production, is expected to generate substantial volume increases for the Protiva animal sciences unit. A U.S. Department of Agriculture analysis concludes that nearly one-eighth of the U.S. dairy herd will be supplemented with bovine somatotropin for the first time in 1995, almost double the number of cows treated in 1994.

#### Solaris Looks for International Expansions

Solaris is seeking opportunities to expand its line of lawn-and-garden products around the world using the same approach that is working in the United States: acquire a local line of lawn-and-garden products,



combine it with existing products, reduce costs, and use Solaris' marketing abilities to sell more volumes at higher margins. Solaris took this concept to Canada with the January 1995 acquisition of Green Cross lawn-and-garden products. Solaris also will introduce its Yard Basics line of six lawn-and-

garden products in the United States in 1995. Yard Basics is geared to simplify the decisions consumers make when buying gardening supplies.

#### Biotechnology-Based Products Emerging from Pipeline

Genetically improved crops will emerge from the new product pipeline within the next several years. Candidates for commercialization include soybeans, canola and cotton that are tolerant of Roundup herbicide; insect-protected cotton with the Bollgard gene; NewLeaf insect-protected potatoes; insect-protected

#### Plant Sciences Pipeline

Estimated commercialization timetable based on regulatory progress through 1994

| 1994 - 1997                                      |  | (U.S. & Canada) |
|--------------------------------------------------|--|-----------------|
| ● NewLeaf Insect-Protected Potatoes              |  | (U.S.)          |
| ● Roundup Ready Soybeans                         |  | (U.S.)          |
| ● Insect-Protected Cotton with the Bollgard Gene |  | (U.S.)          |
| ● Roundup Ready Canola                           |  | (Canada)        |
| ● Delayed-Ripening Tomatoes                      |  | (U.S.)          |
| ● Roundup Ready Cotton                           |  | (U.S.)          |
| 1998 - 2000+                                     |  |                 |
| ● Insect-Protected Corn                          |  | (U.S.)          |
| ● Virus-Protected Potatoes                       |  | (U.S.)          |
| ● Roundup Ready Corn                             |  | (U.S.)          |
| ● Roundup Ready Sugar Beets                      |  | (Europe)        |
| ● Roundup Ready Oilseed Rape                     |  | (Europe)        |
| ● Higher-Solids Potatoes                         |  | (U.S.)          |

▲ Monsanto is proceeding with the development of 12 biotechnology plant sciences products that could lead to increased crop productivity or improved food quality and processing traits. These products are being evaluated by various regulatory agencies. When brought to market, they should be important contributors to the agricultural product line.

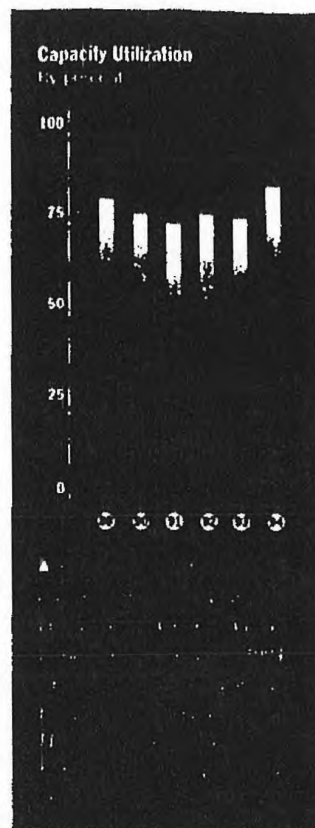
## 1994 Review: Volumes and Cost Savings Drive Chemical Group Performance

The Chemical Group manufactures and markets performance materials that are used by customers to make a wide range of consumer and industrial goods. Products for the housing and automotive markets account for approximately 60 percent of sales. In 1994, The Chemical Group generated \$304 million in operating income, an 8 percent decline from 1993 results. Adjusted for nonrecurring items in 1993 and 1994, operating income would have improved almost 17 percent in 1994. Cost savings and higher volumes were partially offset by higher raw material prices.

 The Chemical Group demonstrated in 1994 that growth can be achieved with mature products in slow-growing markets with limited pricing flexibility. The unit also experienced a run-up in raw material costs — as high as 25 percent in some cases — that affected most of its product lines. Yet The Chemical Group offset these factors by selling significantly higher volumes of key products, improving the capacity utilization rate to 86 percent, and successfully continuing its business redesign and cost reduction efforts.

Nylon and acrylic fibers came off a strong 1993 to increase volumes by 6 percent in 1994, primarily because of improved demand for replacement carpet. The Chemical Group also added 4 percentage points to its leading market share in Acrilan acrylic fibers for home furnishings and apparel.

Volumes for Saflex plastic interlayer, used in laminated glass for vehicles and in architectural applications, were up substantially compared with volumes in 1993. Contributing to this improved performance were increased demand in the U.S. and some European automotive markets, quality improvements in manufacturing operations, and continued cost reduction activities.



The year-to-year performance for plastics improved, with strong worldwide sales volumes and aggressive cost reductions. Business redesign initiatives continued in 1994 and made a major contribution to the improved performance. Margins were dampened in the second half of the year by major demand-driven price increases in raw materials. The Plastics Division made significant progress in its efforts to market specialty products by launching a new

refrigerator liner product and commercializing improved products for markets that require weather-stable materials.

The Industrial Products Group — which makes numerous products for the food, vehicle, chemicals, personal products, and construction and home furnishings markets — increased volumes in most product lines worldwide, particularly in Asia and North America. Specialty resins and phosphates for personal products and industrial applications were especially strong in 1994. These two product lines generated volume gains as well as price increases.

In the fourth quarter of 1994, The Chemical Group announced a rubber chemicals and instruments joint venture with Akzo Nobel N.V. This joint venture is scheduled to begin operating in early 1995. It should allow The Chemical Group to reduce costs, to combine complementary technology and product lines, and to pursue new products and manufacturing processes that offer performance and environmental advantages in the competitive rubber chemicals market.

# Slow to Moderate Growth in Global Economies Makes the *Business Climate* for Chemicals More Competitive

For high-performance chemical manufacturers and most of their customers, the next two to four years will be a time of intense competition in the developed economies of Japan, Europe and North America. Those years will also be a time of establishing positions in emerging economies worldwide.

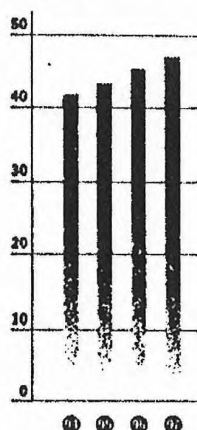
 Chemical customers will continue to seek higher quality and more service at lower prices during the latter half of the 1990s. Consolidation will also continue for both customers and suppliers. Markets will become more global, and thus more competitive. Start-up competitors with lower cost structures and lower profit expectations will compete for a greater share of existing suppliers' business. In this environment, price increases will be hard to impose and harder to maintain.

While the developed economies of the United

▼ More than half of The Chemical Group's sales are made into the automotive, construction and home furnishings markets. These markets should continue their economic rebound in Europe and Japan, and settle into a slow but steady growth trend worldwide in the next two years.

States, Canada and Western Europe are expected to grow at annual rates somewhat below historical

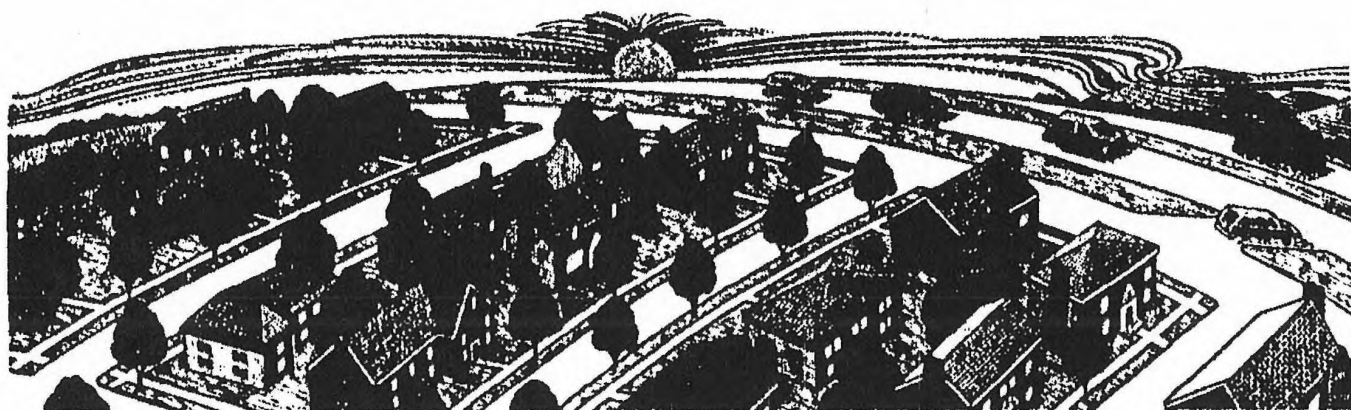
**Automobile and Light Truck Production Estimates in Key Markets**  
In millions  
Source: DRI/McGraw-Hill  
World Car Industry  
Forecast Report



▲ Production of automobiles and light trucks is a key indicator for sales of Monsanto's fibers, plastics and Saflex plastic inter-layer. Manufacture of these vehicles in key markets — North America, Western Europe, Japan and Asia — is projected to grow modestly during the next three years.

trends, higher growth is predicted in several emerging economies. Certain Pacific Rim countries, particularly China, Korea, Taiwan, Hong Kong, Thailand and Singapore, are expected to lead the world's growth during the next 10 years. Latin America also is expected to grow more rapidly than the major industrial countries. These improving economies bode well for increased sales in many market segments, including automotive and home furnishings.

These factors add up to a business climate that rewards the high-performance chemical manufacturer who can keep lowering costs, keep improving its production processes, and keep running its plants at high capacity rates. Additional rewards are available to those who position themselves to serve the fast-growing economies of the Pacific Rim and Latin America.



Monsanto 1994 Annual Report

Certain Pacific Rim countries are expected to lead the world's economic growth during the next 10 years.



## Outlook: Core Businesses Provide a Solid Foundation for Chemical Group Growth

To achieve the full profit potential of key products and to develop new products that will contribute to shareowner value, The Chemical Group intends to:

- Generate profitable growth in existing product lines through cost savings, new capacity, joint ventures and product line extensions.
- Successfully commercialize emerging technologies that add value for customers.
- Generate new income through strategic acquisitions of synergistic businesses.
- Continue to use business redesign and other productivity measures to increase income.



In the next two to four years, The Chemical Group should generate income growth from existing products through joint ventures, strategic capacity expansions, continued product improvements geared to customer needs, and continued productivity improvements.

### Joint Ventures Offer Growth for Existing Product Lines

In the Pacific Rim, The Chemical Group is creating joint ventures to supply expanding markets. Production is scheduled to start in mid-1995 at Thailon Six Six Ltd., The Chemical Group's nylon joint venture in Thailand. This venture will serve as a gateway to the Burmese, Vietnamese, Cambodian and Indonesian markets for nylon hosiery and apparel products.

Another joint venture in Thailand, Monsanto Premier Kasei Co. Ltd., will provide The Chemical Group and its partners with a world-class plastics plant, scheduled to come on line in the latter half of 1995. This facility will be a base of operations in the Pacific Rim outside Japan. It will supply global customers who make medical, appliance, automotive and consumer electronic products containing Lustran plastics.

Joint ventures will also help The Chemical Group grow in the greater China market. A partnership with Jiangsu Chemical Pesticide Group Co., to be called Monsanto Chemical Co. Ltd. Suzhou, will manufacture and market *Therminol* heat transfer fluids. With this agreement, Monsanto will be the first worldwide heat transfer fluid supplier with a manufacturing base in China.

◀ Hattie Odom is an operator on the new nylon carpet staple production line at The Chemical Group's Pensacola, Florida, plant. Because of market conditions, 60 million pounds of capacity was added in 1994 and another 60 million pounds of capacity will become available in the first quarter of 1996.



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The Chemical Group is also using joint ventures to improve mature product lines and to share the cost of new technologies. A rubber chemicals and instruments joint venture with Akzo Nobel N.V. of the Netherlands was announced in December 1994 and is scheduled to begin operating in early 1995.

Because excessive global capacity suppresses prices for many chemical products, Monsanto will be conservative in planning expansions. Nylon carpet staple used in *Wear-Dated* carpets, however, warrants additional capacity. In response to market conditions, 60 million pounds of production capacity came on line during the fourth quarter of 1994. Another 60 million pounds

of additional capacity is scheduled to be available in the first quarter of 1996.

In every product line, improvements are continually being made to meet evolving customer needs. For example, a modification in the way glass is laminated for windshields left automotive glass customers without a consistently performing plastic interlayer.

Chemical Group employees worked closely with their automotive glass customers to adapt Saflex plastic interlayer to the modified laminating process. The solution has resulted in improved production time and yields for glass customers.



▲ Monsanto is forming a joint venture with Akzo Nobel N.V. for rubber chemicals and instruments. This partnership makes the new company the largest rubber chemicals manufacturer worldwide. It will pursue new compounds and manufacturing processes that will provide performance and environmental benefits in the competitive rubber chemicals market.



▲ Chemical Group employees and automotive glass customers worked together to improve the performance of Saflex plastic interlayer in a new glass laminating process. Monsanto employees Harry Hopfe (left) and Dave Bourcier compare the new material (left) in a partially processed windshield with the old material at Monsanto's Indian Orchard technology center in Springfield, Massachusetts.

#### New Technologies Ready To Enter Marketplace

The Chemical Group is selectively bringing to market new technologies that it has been developing for several years. *Sorbalite* polymeric ultraviolet (UV) light blocker is one such product. Fabrics, floorings and plastic window films treated with *Sorbalite* are protected against the sun's destructive UV rays, which cause materials to yellow, degrade or become brittle. *Sorbalite* is superior to other UV absorbers because a much thinner film of this product is needed to protect the sun-exposed material. Customers will begin using *Sorbalite* in a variety of indoor and outdoor products in 1995.

The Chemical Group is also actively searching for targeted acquisitions that are synergistic with its core businesses and would provide new sources for income growth.

#### Productivity Programs Pay Off Four-to-One

In 1995, The Chemical Group begins its fourth year of a business redesign process that is paying back \$4 for every \$1 invested. The payback comes in the form of cost savings, revenue enhancement and reduced capital employed. The Chemical Group believes it can still capture considerable additional savings through the business redesign process.



▲ *Sorbalite* polymeric ultraviolet (UV) light blocker helps protect many indoor and outdoor floorings and fabrics against yellowing and degradation caused by the sun's UV rays. The Chemical Group is currently introducing *Sorbalite* to home furnishings suppliers.

## 1994 Review: New Products Help Searle Return to Profitability

Searle develops and markets prescription pharmaceuticals. Its products include medications to relieve the symptoms of arthritis, to control high blood pressure, to relieve insomnia, to prevent the formation of ulcers, and to treat certain infections. Increased sales of new products helped Searle generate \$72 million in operating income in 1994, after posting an operating loss in 1993. Net sales set a record at \$1.7 billion.

 Searle returned to profitability in 1994 on the strength of more than \$300 million in sales from three recently introduced products.

### Insomnia and Arthritis Medications Gain Sales Momentum

In its first full year in the United States, Ambien short-term treatment for insomnia posted sales of \$105 million. This drug is already the undisputed market leader, with 27 percent of total prescriptions in the hypnotics market and 50 percent of the total dollar sales in that category. The introduction of Ambien ended a nine-year decline in the hypnotics market because of safety concerns with existing products. The hypnotics segment has grown 16 percent since the launch of Ambien in 1993.

Daypro once-a-day arthritis treatment completed its first full year in the U.S. market with sales of \$175 million and a 5.9 percent total prescription share of the arthritis market. By comparison, the market-leading branded product in this category held a 10 percent share of total prescriptions at year-end. New arthritis drugs typically hit their peak sales within six to nine months. Searle's sales force succeeded in elevating sales of Daypro by 48 percent throughout 1994. This came after hitting a typical plateau, then implementing an extensive marketing program that renewed physician interest and increased sales of the product.

Sales of Arthrotec arthritis treatment, introduced in Canada, Sweden, Ireland and the United Kingdom in 1993, increased to \$30 million in 1994 — more than

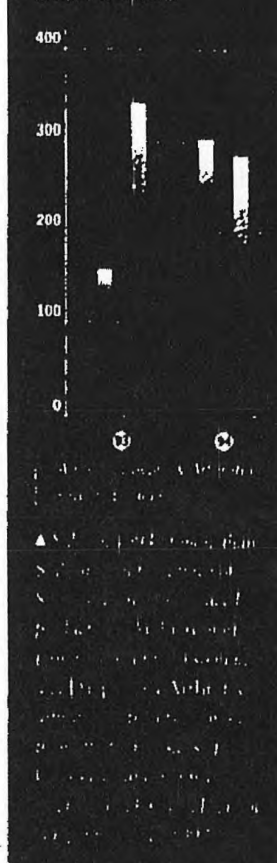
double sales in 1993. Arthrotec also was launched successfully in Portugal and the Netherlands during 1994.

### Calan Calcium Channel Blocker Remains Searle's Top-Selling Drug

The combined sales of Ambien, Daypro and Arthrotec more than offset lower sales from Searle's Calan family of calcium channel blockers. Calan has attracted strong generic verapamil competition since 1992. Even so, the Calan family of products continued to be Searle's largest selling product line, finishing 1994 with \$292 million in sales, down from \$350 million in 1993.

In addition, Searle posted sales of \$29 million for a generic vera-

Sales of Searle New Products vs. Sales of Branded Calan Calcium Channel Blocker  
Dollars, in millions



pamil, which was sold by a distributor for Searle. At year-end, Searle held 7.6 percent of total prescriptions for calcium channel blockers in the United States.

Cytotec ulcer preventive drug extended its year-to-year growth performance in 1994 with a 4.5 percent increase in sales to \$138 million. New research on Cytotec supports its outstanding effectiveness in reducing complications induced by many commonly used anti-inflammatory drugs.

In all, sales rose to \$1.7 billion, almost a 9 percent increase from 1993 sales and a record for Searle.

### Restructuring Cost Savings Reach \$90 Million

Cost reductions also contributed to operating income in 1994. Cost savings attributed to restructuring actions announced in 1992 were \$90 million in 1994, for a two-year total of more than \$150 million.

# The Pharmaceutical Business Climate Favors Innovative and Cost Conscious Solutions

Generic competition, health care legislative initiatives, and managed care and group purchasing have created a cost conscious environment for pharmaceuticals. In this climate, the need is greater than ever for innovative drugs that satisfy unmet health care needs or offer alternatives to more costly treatments.

Powerful trends are remaking the pharmaceutical industry. First, there is managed care and group purchasing. This trend has dramatically shifted marketing by drug firms away from selling product benefits to individual physicians and toward negotiating large, long-term contracts with health care organizations that make buying decisions largely on price.

The second major trend is generic competition. When buyers look mainly at price, generics are often favored over branded products. And when physicians prescribe from a managed care or group formulary, the brand identity of a drug becomes a secondary consideration.

Managed health care and group purchasing of prescription drugs are leading pharmaceutical companies to differentiate their products and services, and to offer unique, cost effective therapies to succeed in this rapidly changing marketplace.

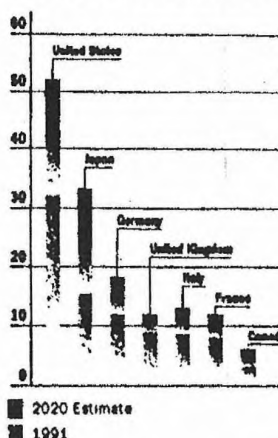
A third trend is health care legislative initiatives around the world. Whenever public health care policy is debated, there is the danger that price controls for pharmaceuticals will replace market dynamics.

These three trends illustrate the shift to greater cost

consciousness in the pharmaceutical industry. At the same time, two factors favor companies that offer unique pharmaceutical treatments. First, the aging population requires more pharmaceuticals. Second, purchasing groups will still buy patented drugs that offer an affordable alternative to more expensive treatments such as surgery.

These conditions mean growth opportunities still exist for pharmaceutical firms that can compete on price while discovering and developing innovative, patent-protected drugs that satisfy unmet health care needs or offer alternatives to more costly treatments.

**Population Growth: Age 65 and Over**  
In millions  
Source: U.S. Department of Commerce



The number of people 65 and over in the seven countries that account for almost 80 percent of worldwide pharmaceutical sales is expected to rise from 88.2 million in 1991 to 147.6 million by 2020. Because this age group typically purchases more than one-third of all prescription drugs sold, the trend offers growth for pharmaceutical companies that discover and market unique geriatric medications.



## Searle Outlook Includes Developing Unique Products in Chosen Therapeutic Areas

To achieve the full profit potential of key products and to develop new products that will contribute to shareowner value in the future, Searle intends to:

- Fulfill growth opportunities in the managed health care environment.
- Successfully introduce patent-protected products in global markets.
- Improve research and development productivity to bring to market unique treatments that address unmet health care needs.



The pharmaceuticals market has become extremely cost sensitive. However, opportunities

for growth can still be found. Searle is introducing innovative approaches for selling to managed care and group purchasers, expanding patent-protected product offerings, and researching unique treatments for unmet health care needs.

### Searle Focuses on Managed Care Opportunities

Searle will build on its involvement in managed care, which dates back to the mid-1980s, when Searle created some of the first managed care networks in the pharmaceutical industry. In 1995, Searle will implement a formal business redesign process to adapt to the changing marketplace and to work more closely with its customers, especially managed care providers.

For example, the unit will organize itself around the treatment of specific diseases, like arthritis. It will then work with its managed care customers to address the total needs of patients who suffer from these diseases. Total care involves an array of products and services that support lifestyle changes and provide education on the disease itself and appropriate medication. This approach should result in a lower overall cost of health care for the patient, less turnover in

managed care memberships for the payer, and increased income for Searle through a more focused approach.

### Patented Products on Course for Introduction

Searle has several products nearing market introduction that will provide unique, cost effective solutions to a variety of health care needs. These include current products to be introduced in new geographic markets, products in the pipeline, and enhancements to already successful products.

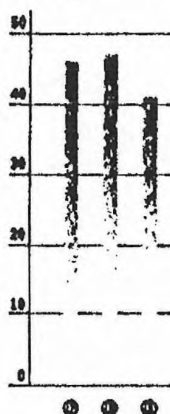
◀ Approximately one-third of American adults suffer from chronic or occasional sleeplessness. In its first full year on the U.S. market, Ambien short-term treatment for insomnia captured 50 percent of the total dollar sales for hypnotics. The phenomenal performance of this product demonstrates the demand for unique treatments that address unmet needs.



Arthrotec arthritis treatment should be available for sale in Italy, France and Germany within the next two years. It will be submitted for approval in the United States in 1995. Arthrotec offers relief from the symptoms of arthritis with less risk of causing gastroduodenal ulcers than other arthritis medications.

A new drug application is pending with the U.S. Food and Drug Administration for Verapamil OROS calcium channel blocker, which Searle developed in collaboration with ALZA Corp. This patent-protected

**Searle Marketing and Administrative Expenses as a Percent of Total Sales**  
By percent



▲ In 1994, as recently introduced products attained greater sales and as marketing and administrative expenses declined, Searle improved its ratio of these expenses as a percent of total sales. Searle's goal is to improve this ratio as part of its overall cost reduction effort.

product will allow the hypertension patient to take medication before going to bed for maximum effectiveness against the early morning rise in blood pressure and heart rate. The morning hours are when the risk of heart attack is greatest.

Searle remains on track with the development of IL-3 synthokine, which shows promise in stimulating platelets and infection-fighting cells. If proven effective, IL-3 synthokine will prevent the bleeding, anemia and infections that are common side effects of chemotherapy for cancer patients. Searle began clinical trials on this compound in December 1994.

Another candidate currently in development is an oral antiplatelet designed to address an unmet need by preventing or inhibiting blood clots after bypass surgery or angioplasty. Several injectable antiplatelet treatments are being developed by other pharmaceutical companies, but only Searle is currently testing the first orally effective remedy. Searle is moving this drug through clinical trials on an expedited basis.



▲ During 1995 and 1996, Arthrotec arthritis treatment should be available for sale in Italy, France and Germany. By expanding into key countries such as these, Searle intends to increase annual sales of its arthritis medications substantially.

#### **Searle Reengineers Research for Greater Productivity**

Searle invests more than \$300 million a year in research and development (R&D). To maximize that investment in the global health care environment, productivity and quality must be emphasized. R&D efforts must focus on early identification of those products that will be first or second in their market, that will offer significant new benefits, and that can be brought to market quickly and safely. To this end, Searle is reengineering its R&D structure to make research more productive and to reduce the typical drug development time 20 percent to 40 percent.

Searle is also continuing to seek R&D collaborations that will share costs and combine strengths to speed development. A leading example is the agreement to collaborate with Chiron Corp. to develop, manufacture and market a cardiovascular drug that



▲ Searle scientists (from left) Tze-Chien "James" Wen, Gerald Galluppi and Thomas Girard are working with Chiron Corp. scientists to speed the development of tissue factor pathway inhibitor (TFPI). TFPI is being developed to treat complications during microvascular surgery.

was discovered in a Searle/Monsanto biotechnology research program with Washington University Medical School in St. Louis. This drug, tissue factor pathway inhibitor (TFPI), is being developed to treat complications caused by blood clotting during vascular surgery.

## 1994 Review: Lower Expenses for NutraSweet Help Offset Lower Volumes, Selling Prices; Income Is Down Slightly

The NutraSweet Company manufactures and markets sweeteners, including *NutraSweet* brand sweetener, and *Equal* and *NutraSweet Spoonful* tabletop sweeteners, and other food ingredients. In 1994, NutraSweet delivered \$139 million in operating income, a decrease of 4 percent from operating income for 1993. Expected lower average selling prices and lower volumes were partially offset by lower expenses.

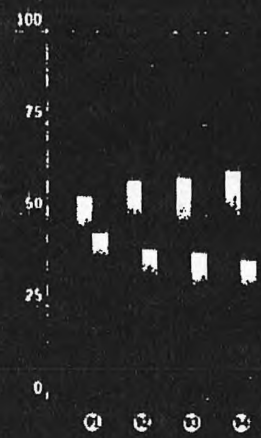
The NutraSweet Company partially offset expected lower selling prices for *NutraSweet* brand sweetener, its trademark aspartame product, and lower volumes with lower operating expenses in 1994. Despite generic competition, market positions for *NutraSweet* in tabletop products and food ingredients remain strong two years after the expiration of the company's U.S. patent for aspartame.

In 1994, volumes for *NutraSweet* decreased slightly from volumes in 1993, primarily due to lower contractual shipments to customers.

Lower volumes in the U.S. diet beverage segment were partially offset by increased use of *NutraSweet* brand sweetener in markets outside the United States, in private label and specialty flavor diet soft drinks, and as a sugar replacement.

In addition, worldwide volumes of *NutraSweet* used in thousands of products other than soft drinks, such as juices, yogurts, dairy products, chewing gum and ice cream novelties, increased despite generic competition. Use of *NutraSweet* in markets outside the United States, which currently account for approximately 10 percent of all net sales, is expected to accelerate in the future.

**U.S. Retail Market Share of Tabletop Sweeteners**  
Percent of total share volume  
Source: The Food Research Board  
Panel Data



### NutraSweet Increases U.S. Dollar Share of Tabletop Products

The U.S. market for all tabletop sweeteners was flat in 1994. Yet The NutraSweet Company's total dollar share of the U.S. market for tabletop sweeteners increased to 62 percent. Despite increased competition from discounted private label products, NutraSweet continued to grow volumes for *Equal* tabletop sweetener in key retail channels. And *NutraSweet Spoonful* is the No. 1 selling bulk tabletop sweetener in dollar

volume just two years after its market introduction.

NutraSweet continued the global expansion of its tabletop products by introducing tabletop sweeteners in seven countries in 1994. Those seven countries were Mexico, Hungary, Uganda, Ecuador, Romania, Uruguay and Paraguay.

### Nondiet Sweetener Uses Signal an Expansion Opportunity

Virtually all of The NutraSweet Company's sweetener sales in 1994 in Eastern Europe and Africa were for nondiet purposes. Although the volumes of *NutraSweet* brand sweetener in these countries represent less than 2 percent of the total volumes outside the United States, the nondiet applications offer a new opportunity for international market expansion.

The research arm of The NutraSweet Company, NSC Technologies, successfully completed its transition to a profit center in 1994. It now offers its expertise in contract research for food ingredients and pharmaceutical intermediates to external clients.

MONS 354729

# The Global Business Climate Encourages New Uses for High-Intensity Sweeteners

**Sugar remains the dominant sweetener in the world. But growth is available for the makers of high-intensity sweeteners as their customers grow internationally and as nondiet food manufacturers expand their use of high-intensity sweeteners.**

Consumers and food manufacturers in the United States are the dominant customers of high-intensity sweeteners. In the past few years, more than 60 percent of all high-intensity sweetener sales were in the United States. International expansion, then, clearly emerges as the key sales opportunity for sweetener products.

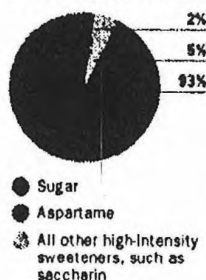
Traditionally, high-intensity sweeteners are sold for use in diet foods, especially diet soft drinks. As leading food and beverage companies continue their international marketing thrust, new growth potential opens up for sweeteners.

In nondiet foods, high-intensity sweeteners can

International growth opportunities exist for high-intensity sweeteners as food and beverage companies offer a greater array of products that complement the active lifestyles of consumers around the world. Today, high-intensity sweetener sales are concentrated in the United States, with more than 60 percent of all sales made there.

play a bigger role in blended products. Blended products use more than one kind of sweetener to create a certain taste or to gain cost advantages. Some high-intensity sweeteners, particularly aspartame, offer cost savings to the customer when compared with other sweeteners.

**Global Sweetener Share**  
By percent  
Source: Landell Mills



▲ Sugar dominates the worldwide sweetener market, with a 93 percent share. Aspartame and other high-intensity sweeteners can play a larger role in satisfying the global appetite for sweetness, particularly in blends for new nondiet foods and beverages, and as economic alternatives for sugar.

In some countries with emerging economies, sugar is scarce either because the country does not produce sugar or because sugar is exported for economic reasons. In these areas, which include India, China, Africa and the former Soviet Union, blends of high-intensity sweeteners and sugar are of particular value.

Substituting a high-intensity sweetener for sugar allows sweetener manufacturers to make inroads into sugar's share of the sweetener market. Sugar currently accounts for 93 percent of the sweetener market, aspartame for 2 percent, and all other high-intensity sweeteners for 5 percent.

Competition also is growing among high-intensity sweetener

makers as generic products are introduced and as new sweeteners gain approvals. Low-cost suppliers with a global reach will be most effective in penetrating the new world markets and in gaining market share from sugar.





## International Growth Fuels the Outlook for The NutraSweet Company

To achieve the full profit potential of key products and to develop new products that will contribute to share-owner value, The NutraSweet Company intends to:

- Expand its global market share of high-intensity sweeteners for tabletop and ingredient uses.
- Increase the use of NutraSweet brand sweetener in new nondiet applications.
- Continue development of the next-generation, high-intensity sweetener and other innovative food ingredients.

 The NutraSweet Company remains focused on expanding its share of the global aspartame market by being the highest value supplier. Tailoring high-intensity sweetener offerings of NutraSweet brand sweetener, the company's trademark aspartame

product, for diet and nondiet uses will strengthen NutraSweet's global presence. In addition, NutraSweet continues its development of Sweetener 2000 to meet the needs of food and beverage customers in the next decade.

### NutraSweet Plans To Expand Its Sweetener Share

The NutraSweet Company will use its core strengths to expand its share of the worldwide sweetener market and to defend its market share against producers of generic aspartame and other high-intensity sweeteners.

First, NutraSweet will continue to improve its global position as the low-cost, highest value supplier of aspartame. Costs have been significantly reduced through manufacturing process technology and efficiency gains. Targets have been set to drive costs down continuously over the next several years.

Second, NutraSweet will compete with producers of generic aspartame in brand recognition, product quality, customer service, and food technology leadership. Already, NutraSweet has developed six new product forms of aspartame that enhance the value of its offerings to customers.

In tabletop sweeteners, NutraSweet will continue to press for growth in its U.S. business and support international expansion. NutraSweet tabletop sweetener will be launched in 1995 throughout Southeast Asia, including Thailand and the Philippines. NutraSweet also plans to introduce a tabletop product in India, and to test market NutraSweet tabletop sweetener in China during 1995.

◀ The popularity of NutraSweet Spoonful and other NutraSweet tabletop sweeteners is expected to grow, especially among health conscious baby boomers. NutraSweet introduced tabletop sweeteners in seven countries during 1994. It plans to introduce tabletop sweeteners in additional countries during 1995.





Expanding the tabletop business into new international markets will help drive additional growth of the aspartame ingredient business. NutraSweet tabletop sweetener increases brand recognition, opening the door for expansion into more food and beverage products in global markets.

#### Economic Advantages Lead to Nondiet Opportunities

NutraSweet will intensify its efforts to market NutraSweet brand sweetener to the majority of people worldwide who are interested in great-tasting sweetness at a competitive cost, but have little or no interest in calorie reduction. The worldwide volume



▲ Pies made with Equal brand sweetener and Simplex all natural fat substitute offer consumers good-tasting desserts with fewer calories and less fat. NSC Technologies, the research and development arm of The NutraSweet Company, is working with food customers to find ways to improve the nutritional value of food without sacrificing good taste and texture.

potential for this business is estimated to be greater than NutraSweet's current diet business.

By blending NutraSweet with high-fructose corn syrup, NutraSweet has the opportunity to enter the full-calorie segment of the carbonated soft drink market. These blends of up to 50 percent aspartame offer economic and taste advantages

to the manufacturer, with some calorie reduction.

In addition, NutraSweet will help serve the emerging midcalorie segment, based on blended products currently offered in some international markets. NutraSweet's participation in the full-calorie and mid-calorie segments is a pure growth opportunity because most of the company's current sales to the soft drink market are in the diet segment.



▲ Sweetener 2000, The NutraSweet Company's next-generation, high-intensity sweetener, is 35 times sweeter than NutraSweet brand sweetener. NutraSweet is on schedule to file a food additive petition for Sweetener 2000 with the U.S. Food and Drug Administration near the turn of the decade.

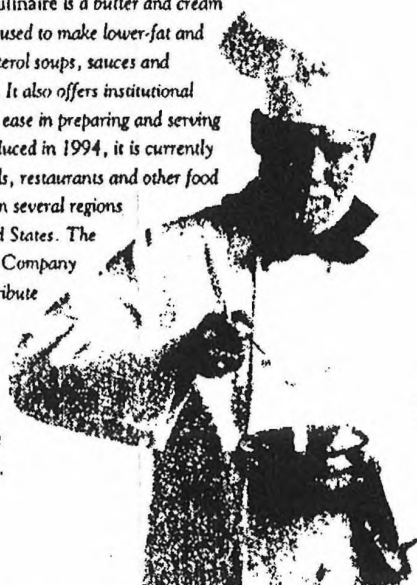
#### Next-Generation Sweetener Remains on Schedule

Sweetener 2000 is the company's next-generation, high-intensity sweetener. It is 7,500 to 10,000 times sweeter than sugar. NutraSweet is on target to file a food additive petition with the U.S. Food and Drug Administration (FDA) before the end of the decade.

This program is being conducted by NSC Technologies, the company's research arm. NSC Technologies' goal is to generate income through its work for customers and other companies, as well as for NutraSweet. It has initiated a growing contract research business, and makes and sells pharmaceutical intermediates and food ingredients to external customers.

NutraSweet will continue to develop fat substitute applications, such as Creme Culinaire butter and cream replacement for food distributors. This niche product offers institutional chefs an easy way to prepare lower-fat and lower-cholesterol soups, sauces and baked goods.

► Creme Culinaire is a butter and cream replacement used to make lower-fat and lower-cholesterol soups, sauces and baked goods. It also offers institutional chefs greater ease in preparing and serving foods. Introduced in 1994, it is currently used by hotels, restaurants and other food distributors in several regions in the United States. The NutraSweet Company plans to distribute Creme Culinaire throughout the United States by the end of 1995.



As of Feb. 1, 1995, Monsanto has created a new structure that assigns primary business responsibilities to individual business units. The 15 units are accountable for strategy, operations and performance, and report to the Monsanto Management Board. Information about the presidents of these business units and a description of their responsibilities follow:

**Crop Protection, Arnold W. Donald:** Mr. Donald, 40, joined Monsanto in 1977. He has held several sales and managerial positions with global responsibilities in the company's chemical, agricultural and lawn-and-garden businesses. As president of the Crop Protection unit, he oversees Roundup and Harness herbicides, as well as numerous other commercial crop protection products and initiatives worldwide.

**Fibers, John C. Hunter:** Mr. Hunter, 48, is responsible for Monsanto's nylon and acrylic fibers, and nylon intermediate products. Mr. Hunter has served in engineering, sales, marketing and managerial positions in several Monsanto chemical businesses since joining the company in 1969. He also has had responsibilities for Monsanto's chemical operations in the Asia-Pacific region.

**Growth Enterprises, Pierre Hochuli:** Mr. Hochuli, 47, heads a group of smaller businesses that may serve as future growth platforms for Monsanto. The unit will also explore new business opportunities. Mr. Hochuli joined Monsanto in 1976 and has held positions in marketing, finance, research and development, and general management in Europe, Latin America and the United States. Most recently, he served as vice president of corporate planning for Monsanto.

**Kelco, Peter Kovacs:** Mr. Kovacs, 53, has been with the recently acquired Kelco specialty chemicals company for 26 years. He has held a variety of positions in research and management in Belgium, the United Kingdom and the United States. Mr. Kovacs has headed Kelco since 1991.

**New Agricultural Products, Robert T. Fraley, Ph.D.:** Dr. Fraley, 42, is responsible for the discovery and development of new crop chemical and biotechnology-based agricultural products. Dr. Fraley began his career in research at Monsanto in 1981 and made numerous contributions in the areas of plant biology and gene transfer technology. He also has held several managerial positions in research and development, and new product commercialization.

**NutraSweet Consumer Products, Nick E. Rosa:** Mr. Rosa, 43, has held finance and planning positions at Searle and managerial positions in sales, operations and business development for NutraSweet businesses worldwide. He has been with Monsanto for 14 years. Mr. Rosa is responsible for Equal, Canderel and NutraSweet Spoonful tabletop sweeteners, and other related consumer products.

**NutraSweet Ingredient, J. Richard Darnaby:** Mr. Darnaby, 43, is responsible for NutraSweet brand sweetener and other food ingredient products. He joined Monsanto in 1979, and has held sales and management positions in the chemical and agricultural businesses, and in the consumer segments of the NutraSweet and lawn-and-garden businesses. Mr. Darnaby also previously served as president and chief executive officer of Monsanto Canada.

**Performance Materials, David B. Price Jr.:** Mr. Price, 49, heads Monsanto's phosphorus and derivatives businesses. During his 23 years with the company, Mr. Price has

David B. Price Jr.

John C. Hunter

Richard U. De Schutter

J. Richard Darnaby

Arthur F. Fitzgerald

Peter Kovacs

Nick E. Rosa



held engineering, planning, financial analysis, investor relations and general managerial positions in staff functions. He also has had international responsibilities in the chemical and agricultural businesses.

**Plastics, Arthur F. Fitzgerald:** Mr. Fitzgerald, 46, joined Monsanto in 1973. He has held several positions in marketing, purchasing, distribution, manufacturing, total quality and business operations for various chemical businesses in Canada, Asia-Pacific, Latin America and the United States. His current responsibilities include Monsanto's plastics businesses, such as *Lustran* and *Vydyne* plastics.

**Produce, Jeffrey D. Gargiulo:** Mr. Gargiulo, 42, is responsible for the unit that produces and markets food crops developed through biotechnology. He has been with NTGargiulo L.P., a diversified agricultural business with operations in the United States and Latin America, since 1974. He was named president and chief executive officer of NTGargiulo in 1980, and chairman and CEO in 1994.

**Protiva, Walter P. Hobgood Jr.:** Mr. Hobgood, 46, heads Protiva, the unit that markets *Posilac* bovine somatotropin and is developing other products for animal health and productivity. He joined Monsanto in 1973 and has worked in sales, marketing, planning and business operations in Australia, New Zealand, Southeast Asia and the United States.

**Safflex, John J. Ferguson:** Mr. Ferguson, 42, joined Monsanto in 1974 in sales. He subsequently held positions in marketing and business operations for a number of chemical businesses. Mr. Ferguson has been responsible for operations in Europe, Africa, Latin America and the United States, and led the business redesign efforts

for the company's chemical businesses. In his current position, he heads the unit for *Safflex* plastic interlayer.

**Searle, Richard U. De Schutter:** Mr. De Schutter, 54, heads Searle, Monsanto's pharmaceutical business. He will become chairman and chief executive officer of Searle upon the retirement of Dr. Sheldon G. Gilgore in April 1995. Mr. De Schutter has been with Monsanto for 30 years and has served in a number of engineering, sales, marketing and business operations positions in its chemical businesses. He joined Searle in 1985 and has held several executive positions there.

**Solaris, Janice V. Novak:** Ms. Novak, 39, is responsible for the Solaris line of lawn-and-garden businesses, including *Roundup* herbicide for residential use and *Ortho* lawn-and-garden products. She began her Monsanto career with Searle in 1981, where she worked in finance, planning and product management. Ms. Novak also held positions in international operations and sales and marketing at NutraSweet, and was then named to head residential products for Monsanto's agricultural business.

**Specialty and Engineered Products, Michael E. Miller:** Mr. Miller, 53, joined Monsanto in 1965 in sales. He has held a variety of marketing, administration and business operations positions for the company's chemical businesses in the United States and the Asia-Pacific region. He also has served as corporate vice president for administration. As president of the Specialty and Engineered Products unit, he heads polymer modifiers, process chemicals, specialty resins and functional and plastic products businesses.

*Ages and years of service as of March 1, 1995.*

Jeffrey D. Gargiulo

John J. Ferguson

Michael E. Miller

Arnold W. Donald

Pierre Hochuli

Janice V. Novak

Walter P. Hobgood Jr.

Robert T. Fraley, Ph.D.



MONS 354734



Management Report, Audit Committee Report,  
Independent Auditors' Opinion

Statement of Consolidated Income

Statement of Consolidated Financial Position

Statement of Consolidated Shareowners' Equity

Statement of Consolidated Cash Flow

Notes to Financial Statements

Financial Summary

## Management Report

26 Monsanto Company's management is responsible  
28 for the fair presentation and consistency, in accordance  
41 with generally accepted accounting principles, of all  
the financial information included in this annual report.  
Where necessary, the information reflects management's  
best estimates and judgments.

43 Management is also responsible for maintaining a sys-  
44 tem of internal accounting controls with the objectives of  
47 providing reasonable assurance that Monsanto's assets are  
safeguarded against material loss from unauthorized use  
or disposition and that authorized transactions are properly  
58 recorded to permit the preparation of accurate financial  
information. Cost/benefit judgments are an important  
consideration in this regard. The effectiveness of internal  
controls is maintained by personnel selection and training,  
division of responsibilities, establishment and communica-  
tion of policies, and ongoing internal review programs  
and audits.

Management believes that Monsanto's system of inter-  
nal accounting controls as of Dec. 31, 1994, is effective and  
adequate to accomplish the objectives described above.

Richard J. Mahoney  
Chairman and Chief Executive Officer

Robert B. Hoffman  
Senior Vice President and  
Chief Financial Officer

Feb. 24, 1995

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.

MONS 354735



## Audit Committee Report

The audit committee, composed of six nonemployee members of the board of directors, met four times during 1994. The committee reviews and monitors Monsanto's internal accounting controls, financial reports, accounting practices, and the scope and effectiveness of the audits performed by the independent auditors and internal auditors. The committee also recommends to the full board of directors the appointment of Monsanto's principal independent auditors, and it approves in advance all significant audit and nonaudit services provided by such auditors. As ratified by shareowner vote at the 1994 annual meeting, Deloitte & Touche LLP (Deloitte & Touche) was appointed independent auditors to examine, and to express an opinion as to the fair presentation of, the consolidated financial statements. This opinion follows.

The audit committee discusses audit and financial reporting matters with representatives of the company's financial management, its internal auditors and Deloitte & Touche. The internal auditors and Deloitte & Touche meet with the committee, with and without management representatives present, to discuss the results of their examinations, the adequacy of Monsanto's internal accounting controls, and the quality of its financial reporting. The committee encourages the internal auditors and Deloitte & Touche to communicate directly with the committee.

The audit committee has reviewed the financial section of this annual report. Pursuant to the recommendation of the committee, the board of directors has approved the financial section.



Buck Mickel  
Chair, Audit Committee

Feb. 24, 1995

## Independent Auditors' Opinion

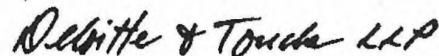
To the shareowners of Monsanto Company:

We have audited the accompanying statement of consolidated financial position of Monsanto Company and subsidiaries as of Dec. 31, 1994 and 1993, and the related statements of consolidated income, shareowners' equity and cash flow for each of the three years in the period ended Dec. 31, 1994. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly in all material respects the financial position of Monsanto Company and subsidiaries as of Dec. 31, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended Dec. 31, 1994, in conformity with generally accepted accounting principles.

As discussed in the Notes to Financial Statements, in 1992 Monsanto changed its methods of accounting for postretirement benefits other than pensions and for income taxes.



Deloitte & Touche LLP  
St. Louis, Missouri

Feb. 24, 1995

# Statement of Consolidated Income

(Dollars in millions, except per share)

|                                                                     | 1994           | 1993           | 1992             |
|---------------------------------------------------------------------|----------------|----------------|------------------|
| <b>Net Sales</b>                                                    | \$8,272        | \$7,902        | \$7,763          |
| Cost of goods sold                                                  | 4,774          | 4,564          | 4,710            |
| <b>Gross Profit</b>                                                 | 3,498          | 3,338          | 3,053            |
| Marketing expenses                                                  | 1,191          | 1,199          | 1,115            |
| Administrative expenses                                             | 589            | 548            | 487              |
| Technological expenses                                              | 674            | 695            | 720              |
| Amortization of intangible assets                                   | 81             | 81             | 237              |
| Restructuring expenses — net                                        | 40             | 5              | 436              |
| <b>Operating Income</b>                                             | 923            | 810            | 58               |
| Interest expense                                                    | (131)          | (129)          | (169)            |
| Interest income                                                     | 81             | 40             | 43               |
| Other income (expense) — net                                        | 22             | 8              | (106)            |
| <b>Income (Loss) from Continuing Operations Before Income Taxes</b> | 895            | 729            | (174)            |
| Income taxes                                                        | 273            | 235            | (48)             |
| <b>Income (Loss) from Continuing Operations</b>                     | 622            | 494            | (126)            |
| <b>Discontinued Operations:</b>                                     |                |                |                  |
| Income from Fisher Controls                                         |                |                | 24               |
| Gain on sale of Fisher Controls                                     |                |                | 554              |
| <b>Income from Discontinued Operations</b>                          |                |                | 578              |
| <b>Income Before Accounting Changes</b>                             | 622            | 494            | 452              |
| <b>Cumulative Effect of Accounting Changes:</b>                     |                |                |                  |
| Postretirement Benefits Other Than Pensions                         |                |                | (658)            |
| Income Taxes                                                        |                |                | 118              |
| <b>Net Income (Loss)</b>                                            | <b>\$ 622</b>  | <b>\$ 494</b>  | <b>\$ (88)</b>   |
| <b>Earnings per Share:</b>                                          |                |                |                  |
| Income (Loss) from Continuing Operations                            | \$ 5.32        | \$ 4.10        | \$ (1.01)        |
| Discontinued Operations                                             |                |                | 4.68             |
| Accounting Changes                                                  |                |                | (4.38)           |
| <b>Net Income (Loss)</b>                                            | <b>\$ 5.32</b> | <b>\$ 4.10</b> | <b>\$ (0.71)</b> |

The above statement should be read in conjunction with pages 47 through 57 of this report.

| <b>KEY FINANCIAL STATISTICS</b>                      | 1994 | 1993 | 1992  |
|------------------------------------------------------|------|------|-------|
| <b>As a Percent of Net Sales:</b>                    |      |      |       |
| Gross Profit                                         | 42%  | 42%  | 39%   |
| Marketing, Administrative and Technological Expenses | 30   | 31   | 30    |
| Research and Development Expenses                    | 7    | 8    | 8     |
| Operating Income                                     | 11   | 10   | 1     |
| Income (Loss) from Continuing Operations             | 8    | 6    | (2)   |
| Net Income (Loss)                                    | 8    | 6    | (1)   |
| <b>Effective Income Tax Rate</b>                     | 31   | 32   | (28)  |
| <b>Return on Shareowners' Equity</b>                 | 21.4 | 16.9 | (2.6) |

## Monsanto Reports Record Earnings per Share

Monsanto Company's earnings per share in 1994 were a record \$5.32, and net income was the second-best in Monsanto's history. Net income for 1994 was \$622 million, compared with income of \$494 million, or \$4.10 per share, in 1993. Return on shareowners' equity (ROE) for 1994 was 21.4 percent. The Agricultural Group continued its impressive growth, fueled by record sales volumes for Roundup herbicide and significant income contributions from sales of new products. Higher sales volumes for key products, excellent manufacturing performance, and continued cost reduction efforts led to a substantial increase in The Chemical Group's earnings, excluding the year-to-year effect of restructurings. Searle's performance improved dramatically as sales from new products increased significantly, infrastructure costs were lower, and costs from new product introductions declined. The NutraSweet Company performed well, as significant cost reductions largely offset lower average selling prices.

## Events Affecting Comparability

In December 1994, Monsanto's board of directors approved a plan to eliminate redundant staff activities across the company and to consolidate certain staff and administrative business functions. The plan will result in worldwide employment reductions of approximately 500 people. In addition, the company will close or exit certain facilities and programs. These work force reductions and closures will be substantially completed by the end of 1995. The pretax expense related to these actions was \$89 million (\$55 million aftertax, or \$0.47 per share). The effect of these actions is anticipated to generate future pretax cash savings and benefit future operating income by approximately \$100 million annually. Separately, in the fourth quarter of 1994, the board approved the reversal of \$49 million (\$33 million aftertax, or \$0.28 per share) of excess restructuring reserves from prior years. The excess was primarily due to higher than expected proceeds and lower exit costs from the sale and shutdown of nonstrategic businesses and facilities included in the 1993 and 1992 restructuring actions.

In September 1994, Monsanto and the U.S. Internal Revenue Service settled certain tax matters related to the

1985 acquisition of Searle, and Monsanto recognized an aftertax gain of \$21 million, or \$0.18 per share, for interest on the settlement.

In December 1993, the board of directors approved a small reserve to cover the sale of or exit from certain nonstrategic products, the withdrawal from the pyridine research program in The Agricultural Group, and the consolidation of some manufacturing capacity. The net aftertax expense for these actions was \$7 million, or \$0.06 per share, and principally affected The Agricultural and Chemical Groups.

In March 1993, Monsanto received reimbursement from insurance companies for various costs associated with damage to a manufacturing site of a raw material for Roundup. The settlement resulted in a \$22 million aftertax gain, or \$0.18 per share. These costs had been expensed in 1992, pending resolution of the claim.

Without the unusual events in 1994 and 1993, net income for 1994 would have been \$623 million, compared with \$479 million for the prior year, an increase of 30 percent. Earnings per share in 1994 would have been \$5.33, a 34 percent increase from 1993 earnings per share.

## Net Sales Are Higher

Net sales in 1994 were 5 percent higher than those in 1993, led by increases in net sales for The Agricultural Group and Searle. Net sales for The Chemical Group increased slightly as a result of higher sales volumes. Net sales for The NutraSweet Company declined, in line with expectations.

The Agricultural Group reached record net sales in 1994, up 13 percent from those in 1993, due primarily to a significant increase in worldwide sales volumes for Roundup herbicide. Continued worldwide adoption of conservation tillage techniques by farmers, pricing and new end-use strategies contributed to this sales volume increase. Sales of new products, such as Posilac bovine somatotropin (BST) and Harness herbicide, and the inclusion of a full year's net sales of lawn-and-garden products from the Ortho acquisition also were significant contributors to the sales increase. Searle's net sales growth was led by significant growth in sales of recently introduced new products in the United States, principally Daypro, a once-daily arthritis treatment, and Ambien, a short-term treatment for insomnia. Sales of these and other new products more than offset the effect of generic

competition on sales of the *Calan* family of calcium channel blockers. The Chemical Group's net sales for 1994 were slightly higher than those in 1993. However, after adjusting for 1993 net sales from divested businesses, net sales for 1994 would have increased 6 percent, as sales volumes increased for all key products worldwide. The NutraSweet Company's net sales declined because of lower average selling prices for aspartame. Sales volumes for NutraSweet brand sweetener, the company's trademark aspartame product, declined 4 percent from volumes last year. However, sales of tabletop sweeteners, such as *Equal* and *NutraSweet Spoonful*, increased slightly.

Monsanto's net sales in markets outside the United States represented 40 percent of 1994 net sales, about the same percentage as last year.

## Monsanto Achieves Higher Operating Results

Operating income in 1994 of \$923 million was the second-best in Monsanto's history, and increased 14 percent compared with \$810 million in operating income in 1993. Excluding the \$40 million in net pretax restructuring and unusual items in 1994 and the \$30 million net pretax gain from unusual items in 1993, operating income would have increased by \$183 million, or 23 percent, in 1994. Operating results in 1994 benefited from strong sales volume gains for several major products, the successful introduction of new products, and savings from cost reduction efforts. These increases in operating income were partially offset by the effects of lower selling prices in all units and by substantial cost increases for raw materials experienced by The Chemical Group.

Excluding the aforementioned 1994 and 1993 restructuring charges and unusual items, operating results would have improved significantly for The Agricultural Group, The Chemical Group and Searle. NutraSweet's operating income declined modestly from that in the prior year. The Agricultural Group's operating income in 1994 was a record and benefited from significantly higher worldwide sales volumes for *Roundup* herbicide, from the inclusion of a full year of earnings from the acquired Ortho business, and from the introduction of new products. Operating results for The Chemical Group benefited from significantly higher sales volumes in several major products, lower manufacturing costs and cost reduction efforts. These factors were partially offset by significantly higher raw material costs and lower average selling prices, principally in Europe

and Japan. Searle's improved operating results benefited from significant growth in sales of new products, cost saving from restructuring actions, and lower new product introduction costs. NutraSweet's lower operating income in 1994 resulted from reduced selling prices and sales volumes for aspartame, partially offset by cost reductions and by higher sales of tabletop sweeteners.

Marketing and administrative expenses increased in 1994, principally because of the higher costs associated with various employee incentive programs, and inclusion of a full year's operating expenses of the acquired Ortho lawn-and-garden products business, partially offset by lower new product introduction costs at Searle. Interest income in 1994 increased because of the aforementioned Searle tax refund. "Other income (expense)—net" increased in 1994, principally because of lower currency losses.

## Monsanto Reaches 20 Percent ROE Target

In 1994, Monsanto achieved its goal of a 20 percent return on equity (ROE). The company continues to believe that the 20 percent ROE target is useful.

## Cost Savings Continue

In the past few years, Monsanto has taken steps to make worldwide operations more focused, productive and cost effective. The effect of these actions benefited operating income by approximately \$250 million in 1994. These savings are in line with original expectations and are expected to continue on an annual basis. Continuing business redesign and other productivity enhancement efforts have yielded significant benefits as well. These initiatives will continue as the company responds to increased global competition and higher customer expectations.

## New Products Are Strategic Priority

New product development and commercialization continue to be strategic priorities for Monsanto. For example, three agricultural products developed through the use of biotechnology completed the U.S. Food and Drug Administration's consultation process in 1994, an important step toward regulatory approval. Monsanto's research and development (R&D) expenditures were \$609 million in 1994, or 7 percent of net sales, a level that reflects



management's strong, long-term commitment to R&D. The discovery and development of pharmaceutical and agricultural products continue to be the focus of most of these expenditures. Significant R&D efforts in existing product technologies and new product applications also continue across all business units. Additionally, Monsanto's research program includes the acquisition of new technologies through licensing. The result is that Monsanto has many potential products in the R&D pipeline. Several of them should be commercialized in the next few years.

## Prior Year Review

In 1993, Monsanto Company's operating results improved substantially from those in 1992. Net income for 1993 was \$494 million, or \$4.10 per share, although it was affected by several unusual events. The Agricultural Group continued its impressive growth, fueled by record sales volumes for Roundup herbicide. Savings from cost reductions and from working capital reduction efforts, coupled with slightly higher sales volumes, led to increased earnings in The Chemical Group. Searle's performance improved as sales from new products and significant cost savings from restructuring actions more than offset new product launch costs and the effect of generic competition on sales of the Calan family of calcium channel blockers in the United States. The NutraSweet Company, which completed its first postpatent year for NutraSweet brand sweetener in the United States, showed continued growth in 1993 in sales volumes and improved earnings.

As more fully described on page 29, in December 1993, the board of directors approved a small restructuring reserve. In March 1993, Monsanto received reimbursement from insurance companies for various costs associated with damage to a manufacturing site of a raw material for Roundup.

In 1992, restructuring actions were approved, which primarily affected Searle, and resulted in a one-time aftertax expense of \$425 million, or \$3.44 per share. The Fisher Controls business was sold in 1992, which resulted in an aftertax gain of \$554 million, or \$4.49 per share. Net income in 1992 also included \$24 million, or \$0.19 per share, in partial-year earnings from Fisher Controls prior to the sale of this subsidiary.

In addition, Monsanto implemented new accounting rules related to postretirement benefits and income taxes in 1992, which resulted in a net one-time aftertax charge of \$540 million, or \$4.38 per share.

Other unusual items in 1992 totaled an aftertax expense of \$47 million, or \$0.38 per share. These items were principally the costs incurred from damage in January 1992 to a manufacturing unit that produces a raw material for Roundup, and from the settlement in the second quarter of 1992 of certain lawsuits related to the Brio Superfund site.

Consolidated net sales in 1993 were 2 percent higher than those in the prior year. Net sales for The Agricultural Group grew 17 percent from those in 1992, due primarily to a 24 percent increase in worldwide sales volumes for Roundup. Rapid worldwide adoption of conservation tillage techniques by farmers, the effects of the wet spring in the United States, and pricing and new end-use strategies contributed to this sales volume increase. Searle's net sales growth was led by new product introductions in the United States, principally Daypro, a once-daily arthritis treatment, and Ambien, a short-term treatment for insomnia. Sales of these and other new products more than offset lower sales of Calan, which was subject to generic competition in the United States. The Chemical Group's net sales for 1993 were slightly lower, as sales volume increases in the United States were offset by lower worldwide average selling prices. The lower selling prices were principally due to the recession in Europe and Japan. In NutraSweet's first year following the expiration of its aspartame-use patent in the United States, net sales declined, as expected, because of lower average selling prices. However, aspartame sales volumes grew 6 percent from volumes in 1992.

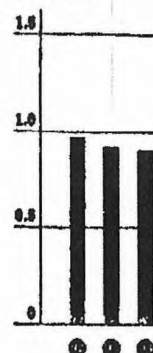
Operating income was \$810 million in 1993, compared with \$58 million in operating income in 1992. Excluding the unusual items in 1993 and the restructuring and unusual charges in 1992, operating results would have improved for all business segments. The Agricultural Group in 1993 benefited from significantly higher worldwide sales volumes for Roundup and from lower manufacturing costs. Operating results for The Chemical Group benefited from lower raw material costs, cost reduction efforts, and increased demand in the United States. Operating results for Searle improved as a result of cost savings from restructuring actions and from higher net sales. These factors more than offset substantial costs of new product introductions and the effect of generic competition on sales of Calan in the United States. NutraSweet's improved operating income in 1993 resulted from increased aspartame sales volumes, and from reduced operating and amortization expenses, which combined to offset lower postpatent prices in the United States for NutraSweet brand sweetener.

Marketing and administrative expenses increased in 1993, principally because of the aforementioned product launch costs incurred by Searle, higher costs associated with various employee incentive programs, and operating expenses of the acquired Ortho lawn-and-garden products business. Amortization of intangible assets declined because of the expiration of NutraSweet's U.S. aspartame-use patent in December 1992. Interest expense in 1993 fell 24 percent, primarily because of lower average debt levels. "Other income (expense) — net" increased in 1993, principally because of lower currency losses and higher income from equity affiliates. The 1992 amount included a write-down of investments to market value.

# ANALYSIS OF CHANGE IN EARNINGS PER SHARE

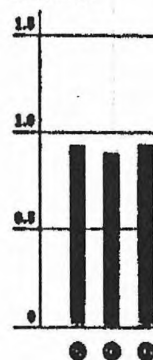
|                                                      | Better (Worse)   |                  |
|------------------------------------------------------|------------------|------------------|
|                                                      | 1994 vs.<br>1993 | 1993 vs.<br>1992 |
| <b>Sales-Related Factors:</b>                        |                  |                  |
| Selling prices                                       | \$(0.71)         | \$(1.90)         |
| Sales volumes and mix                                | 1.70             | 1.33             |
| Total Sales-Related Factors                          | 0.99             | (0.57)           |
| <b>Cost-Related Factors:</b>                         |                  |                  |
| Raw material costs                                   | (0.52)           | 0.55             |
| Manufacturing capacity utilization                   | 0.40             | 0.01             |
| Other manufacturing costs                            | 0.34             | 0.23             |
| Marketing, administrative and technological expenses | (0.27)           | (0.43)           |
| Amortization of intangible assets                    | 0.03             | 0.85             |
| Total Cost-Related Factors                           | (0.02)           | 1.21             |
| Interest expense                                     | (0.01)           | 0.20             |
| Interest income                                      | 0.04             | (0.02)           |
| Other income (expense) — net                         | 0.07             | 0.20             |
| Change in income taxes                               | 0.14             | 0.19             |
| Change in shares outstanding                         | 0.15             | 0.10             |
| Change in Earnings per Share Before Other Factors    | 1.36             | 1.31             |
| <b>Other Factors:</b>                                |                  |                  |
| Restructuring and other unusual actions              | (0.13)           | 3.94             |
| Gain on sale of Fisher Controls                      |                  | (4.49)           |
| Divestitures                                         | (0.01)           | (0.33)           |
| Accounting change for post-retirement benefits       |                  | 5.34             |
| Accounting change for income taxes                   |                  | (0.96)           |
| Total Other Factors                                  | (0.14)           | 3.50             |
| <b>Change in Earnings per Share</b>                  | <b>\$ 1.22</b>   | <b>\$ 4.81</b>   |

**Selling Price Index**  
1989=1.0



◀ The index of selling prices declined in 1994. This was primarily due to the effect of lower selling prices for The Agricultural Group and for The NutraSweet Company. Refer to the discussion of the operating unit segment data for The Agricultural Group on pages 34-35, and for NutraSweet on page 39.

**Raw Material Cost Index**  
1989=1.0



◀ The higher raw material cost index in 1994 primarily affected The Chemical Group. Refer to the discussion of the operating unit segment data for The Chemical Group on pages 36-37.

**Sales Volume Index**  
1989=1.0



◀ The sales volume index increase in 1994 was led by higher sales volumes for key products in The Chemical Group, a significant increase in worldwide sales volumes for Roundup herbicide from those last year, and from sales volume increases for new products at Searle. Refer to the discussion of the operating unit segment data for The Agricultural Group on pages 34-35, for The Chemical Group on pages 36-37, and for Searle on pages 37-38.

|                        | Net Sales      |                |                | Operating Income (Loss) <sup>(1)</sup> |              |             | Research and Development |              |              |
|------------------------|----------------|----------------|----------------|----------------------------------------|--------------|-------------|--------------------------|--------------|--------------|
|                        | 1994           | 1993           | 1992           | 1994                                   | 1993         | 1992        | 1994                     | 1993         | 1992         |
| The Agricultural Group | \$2,224        | \$1,967        | \$1,676        | \$476                                  | \$400        | \$242       | \$141                    | \$152        | \$152        |
| The Chemical Group     | 3,715          | 3,684          | 3,705          | 304                                    | 331          | 91          | 95                       | 113          | 112          |
| Searle                 | 1,681          | 1,546          | 1,503          | 72                                     | (13)         | (288)       | 330                      | 305          | 332          |
| The NutraSweet Company | 652            | 705            | 879            | 139                                    | 145          | 72          | 30                       | 42           | 44           |
| Corporate              |                |                |                | (68)                                   | (53)         | (59)        | 13                       | 14           | 11           |
| <b>Total</b>           | <b>\$8,272</b> | <b>\$7,902</b> | <b>\$7,763</b> | <b>\$923</b>                           | <b>\$810</b> | <b>\$58</b> | <b>\$609</b>             | <b>\$626</b> | <b>\$651</b> |

|                        | Total Assets   |                |                | Capital Expenditures |              |              | Depreciation and Amortization |              |              |
|------------------------|----------------|----------------|----------------|----------------------|--------------|--------------|-------------------------------|--------------|--------------|
|                        | 1994           | 1993           | 1992           | 1994                 | 1993         | 1992         | 1994                          | 1993         | 1992         |
| The Agricultural Group | \$2,434        | \$2,166        | \$1,680        | \$106                | \$109        | \$136        | \$138                         | \$129        | \$112        |
| The Chemical Group     | 3,101          | 3,146          | 3,236          | 212                  | 224          | 290          | 254                           | 263          | 301          |
| Searle                 | 2,139          | 2,145          | 2,435          | 63                   | 72           | 110          | 114                           | 119          | 116          |
| The NutraSweet Company | 901            | 910            | 934            | 27                   | 30           | 49           | 53                            | 59           | 234          |
| Corporate              | 316            | 273            | 800            | 1                    | 2            | 1            | 2                             | 2            | 2            |
| <b>Total</b>           | <b>\$8,891</b> | <b>\$8,640</b> | <b>\$9,085</b> | <b>\$409</b>         | <b>\$437</b> | <b>\$586</b> | <b>\$561</b>                  | <b>\$572</b> | <b>\$765</b> |

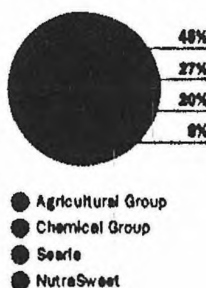
Amounts for 1992 have been restated from those previously reported for the reclassification of expenses and assets estimated to be attributable to biotechnology product discovery. In 1993, these expenses and assets were charged to the respective business units to reflect the current organizational structure.

<sup>(1)</sup>Operating income was affected by the 1994, 1993 and 1992 restructurings and other unusual items as follows:

|                        | Income (Expense) |             |                |
|------------------------|------------------|-------------|----------------|
|                        | 1994             | 1993        | 1992           |
| <b>Operating Units</b> |                  |             |                |
| The Agricultural Group | \$(16)           | \$(3)       | \$(135)        |
| The Chemical Group     | (33)             | 43          | (148)          |
| Searle                 | 19               | 3           | (265)          |
| The NutraSweet Company | (6)              | (12)        | (70)           |
| Corporate              | (4)              | (1)         | (6)            |
| <b>Total</b>           | <b>\$(40)</b>    | <b>\$30</b> | <b>\$(624)</b> |

Although inflation is relatively low in most of Monsanto's major markets, it continues to affect operating results. To mitigate the effect of inflation, Monsanto has implemented measures to control costs, to improve productivity, to manage new fixed and working capital, and to raise selling prices where government regulations and competitive conditions permit. In addition, the current cost of replacing certain assets is estimated to be greater than their historical cost presented in the financial statements. Accordingly, the depreciation expense

1994 Net Sales  
Percent by operating unit



reported in the Statement of Consolidated Income would be greater if the expense was stated on a current cost basis.

Sales between operating units were not significant. Certain corporate expenses, primarily those related to the overall management of Monsanto, were not allocated to the operating units or geographic areas. Corporate assets primarily include investments in affiliates and a portion of the cash balance.

The principal factors that accounted for the operating units' performances in 1994 and 1993, along with the factors that are expected to affect operating results in the near term, are described on the following pages.

## The Agricultural Group

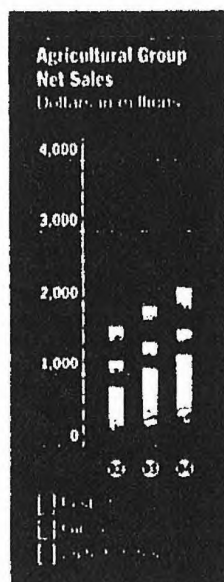
|                         | 1994           | 1993           | 1992           |
|-------------------------|----------------|----------------|----------------|
| Net Sales:              |                |                |                |
| Crop chemicals          | \$2,123        | \$1,936        | \$1,647        |
| Animal sciences         | 101            | 31             | 29             |
| <b>Total</b>            | <b>\$2,224</b> | <b>\$1,967</b> | <b>\$1,676</b> |
| <b>Operating Income</b> | <b>\$ 476</b>  | <b>\$ 400</b>  | <b>\$ 242</b>  |

The Agricultural Group is a leading worldwide developer, producer and marketer of crop protection products and lawn-and-garden products. This group also develops and markets products enhanced by biotechnology. These products improve the efficiency of food production and preserve environmental quality for agricultural, industrial, turf and residential uses. More than half of the unit's herbicide net sales are in markets outside the United States. Weather conditions in agricultural markets worldwide affect sales volumes.



The Agricultural Group's sales and operating performance in 1994 were records, helped by strong sales from the family of Roundup herbicides, the successful introduction of new products, and excellent manufacturing performance.

Net sales for The Agricultural Group in 1994 were 13 percent higher than net sales in 1993. Net sales in 1994 benefited from higher worldwide sales of Roundup, from the inclusion of a full year of lawn-and-garden sales from the acquired Ortho business, and from sales of newly introduced Posilac bovine somatotropin (BST). However, these factors were somewhat offset by lower net sales from the acetanilide family of herbicides, which include Lasso herbicide and newly introduced Harness herbicide. Sales volumes of Lasso declined from volumes last year; however, sales of Harness have substantially replaced those of Lasso in many U.S. markets.



Operating income increased \$76 million, or 19 percent. The increase in operating income was affected by unusual items in both 1994 and 1993. The unusual items included in 1994 operating income were \$30 million in restructuring charges, principally for employment reductions and costs to terminate a program. These charges were partially offset by \$14 million in reversals of prior year restructuring reserves, primarily for higher than anticipated proceeds from the sale of the pyridine research program. Operating income in 1993 included \$38 million in net charges primarily related to the withdrawal from the pyridine research program, and a \$35 million pretax gain resulting from reimbursement by insurance companies for various costs incurred in 1992 from damage to a manufacturing site that produces a key raw material for Roundup.

An analysis of the change in operating income shows:

|                                            | Better (Worse) |               |
|--------------------------------------------|----------------|---------------|
|                                            | 1994 vs. 1993  | 1993 vs. 1992 |
| Selling prices                             | \$ (68)        | \$ (60)       |
| Sales volumes and mix                      | 106            | 157           |
| Raw material and other manufacturing costs | 41             | 24            |
| Restructuring and other charges            | 22             | 25            |
| Glyphosate plant damage costs              |                | 42            |
| Insurance settlement                       | (35)           | 35            |
| Inventory write-down                       |                | 30            |
| Effect of divested businesses              | 30             |               |
| Other (primarily volume-related expenses)  | (20)           | (95)          |
| <b>Change in operating income</b>          | <b>\$ 76</b>   | <b>\$158</b>  |

Worldwide sales volumes in 1994 for the family of Roundup herbicides improved significantly from last year's sales volumes, reflecting strong demand in most key worldwide markets. The continued worldwide adoption of conservation tillage techniques by farmers and satisfactory weather conditions, on balance, in many key markets contributed to this sales volume increase. Selling price declines for certain products, principally in ex-U.S. markets, continued to benefit sales volumes by making Roundup cost effective for weed control in a broader range of crop and industrial uses. The effect of generic competition, principally in certain ex-U.S. markets, dampened selling prices modestly. However, the effect of increased sales volumes on operating income exceeded the effect of the lower selling prices.

Operating income in 1994 benefited from excellent manufacturing performance, from inclusion of a full year's operating income from the acquired Ortho business, and from sales of Posilac in the United States.



Earnings from the acetanilide family of herbicides declined due to lower sales into the former Soviet Union as a result of poor economic conditions, and one-time launch costs for the successful introduction of *Harness* in the United States.

#### Prior Year Review

Net sales for The Agricultural Group in 1993 were 17 percent higher than sales in 1992. Operating income increased \$158 million, or 65 percent. The increase in operating income was affected by unusual items occurring in both 1993 and 1992. The unusual items included in 1993 operating income were \$38 million in net charges primarily related to withdrawal from the pyridine research program and a \$35 million pretax gain resulting from reimbursement by insurance companies for various costs incurred in 1992 from damage to a manufacturing site that produces a key raw material for *Roundup* herbicide. The unusual items included in 1992 operating income were \$63 million in restructuring charges and other items, principally related to employment reductions; a \$42 million loss associated with the aforementioned costs incurred from damage to a manufacturing site of a raw material for *Roundup*; and a \$30 million charge for the write-down of certain bovine somatotropin (BST) inventories because of shelf-life expiration.

Worldwide sales volumes for *Roundup* in 1993 improved 24 percent from 1992 sales volumes, reflecting strong demand in most key markets. The rapid worldwide adoption of conservation tillage techniques by farmers; the effects of the wet spring in the United States; and good weather conditions, on balance, in many key markets contributed to this sales volume increase. The decline in selling prices, principally for certain products in ex-U.S. markets, continued to benefit sales volumes for *Roundup* by making the herbicide cost-effective for weed control in a broader range of crop and industrial uses. The effect of these increased sales volumes on operating income exceeded the effect of lower selling prices.

While 1993 sales benefited from the addition of the Ortho lawn-and-garden products business, operating income was hurt by the dilutive effect of that acquisition. Expenditures in 1993 for BST continued to affect financial results adversely.

#### Agricultural Group Outlook



Patents protecting *Roundup* and other glyphosate herbicides in various countries expired in 1991, while compound *per se* patent protection for the active ingredient in *Roundup* continues in the United States until the year 2000. Management expects that manufacturing process and formulation patents that are important to Monsanto's cost position will help maintain our competitive position after the expiration of this other patent. *Roundup* faces competition from several generic producers in certain markets outside the United States.

Sales of *Harness* herbicide should continue to replace those of *Lasso* herbicide in most U.S. markets. This trend is expected to continue in future periods with some incremental growth anticipated. In December 1994, the U.S. Environmental Protection Agency registered *Permit* herbicide for control of sedges and broadleaf weeds in corn and grain sorghum, and *Manage* herbicide for nutsedge control in turf.

*Posilac* bovine somatotropin (BST) offers significant value to the dairy industry by increasing the efficiency of milk production, but it continues to meet opposition from certain groups. The U.S. Food and Drug Administration has yet to finalize labeling regulations for milk products, and several state legislatures are considering milk labeling bills, which could affect future sales.

The Agricultural Group has a significant number of new products in the research and development pipeline, some of which should be commercialized in the next few years. The focus continues to be on a number of herbicide and biotechnology-related products.

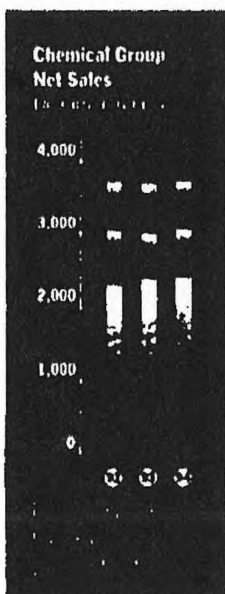
# The Chemical Group

|                           | 1994           | 1993           | 1992           |
|---------------------------|----------------|----------------|----------------|
| Net Sales:                |                |                |                |
| Industrial Products Group | \$1,391        | \$1,522        | \$1,371        |
| Fibers                    | 1,239          | 1,141          | 1,089          |
| Plastics and Saflex       | 1,085          | 1,021          | 1,053          |
| Discontinued products     |                |                | 192            |
| <b>Total</b>              | <b>\$3,715</b> | <b>\$3,684</b> | <b>\$3,705</b> |
| <b>Operating Income</b>   | <b>\$ 304</b>  | <b>\$ 331</b>  | <b>\$ 91</b>   |

The Chemical Group produces and markets a range of performance materials — including plastics, nylon and acrylic fibers, rubber chemicals, Saflex plastic interlayer, and phosphorus and its derivatives — used by customers to make countless consumer, household, automotive and industrial products.

In 1994, The Chemical Group benefited from significantly higher sales volumes for several key products, from improved worldwide capacity utilization levels, and from savings from continuing cost reduction efforts. Partially offsetting these gains were significantly higher raw material costs, principally in the last half of the year, and global pricing pressures in certain businesses.

The Chemical Group's 1994 net sales were slightly higher than net sales last year. Sales in 1993 included those from businesses later divested as part of the previously announced restructuring program. Excluding net sales from these divested businesses, net sales in 1994 would have increased 6 percent from sales in 1993. Sales volumes increased 7 percent from sales volumes in 1993. This increase was offset by lower selling prices, principally in the rubber chemicals business. The sales volume increase in 1994 benefited from increased demand in the North American and certain European automotive markets, from increases in U.S. housing starts and resales, which resulted in an improved U.S. market for replacement carpet, and from an increase in the architectural use of laminated glass.



Operating income in 1994 declined from operating income in the prior year. However, a number of unusual items affected profitability in both years. Specifically, 1994 operating income included \$33 million in restructuring charges, principally related to employment reductions and costs to close several facilities. Operating income in 1993 benefited from \$43 million in gains from the sale of several nonstrategic businesses, partially offset by expenses related to facility rationalization and other costs.

An analysis of the change in operating income shows:

|                                                    | Better (Worse) |               |
|----------------------------------------------------|----------------|---------------|
|                                                    | 1994 vs. 1993  | 1993 vs. 1992 |
| Selling prices                                     | \$(14)         | \$(85)        |
| Sales volumes and mix                              | 128            | 11            |
| Capacity utilization and other manufacturing costs | 74             | 21            |
| Raw material costs                                 | (74)           | 71            |
| Restructuring                                      | (76)           | 120           |
| Asset impairment                                   |                | 30            |
| Brio litigation settlement                         |                | 41            |
| Effect of inventory reduction                      | (11)           | 31            |
| Effect of divested businesses                      | (32)           | (5)           |
| Other                                              | (22)           | 5             |
| <b>Change in operating income</b>                  | <b>\$(27)</b>  | <b>\$240</b>  |

Operating income in 1994 benefited from the effect of higher sales volumes, excellent manufacturing performance and continued cost reduction efforts. Capacity utilization, an important factor for The Chemical Group's profitability, was 86 percent in 1994 vs. 77 percent in 1993. Partially offsetting these gains were significantly higher raw material prices.

Net sales for the Industrial Products Group showed growth in North America and Asia. This growth was offset by the depressed economic conditions in the former Soviet Union during 1994 and in Europe during the first half of the year.

The Fibers Division's net sales in 1994 were 9 percent higher than those in 1993. This strong performance was primarily due to increased nylon sales in the United States to carpet manufacturers for the home replacement carpet market and to tire producers for tire reinforcement.

The Plastics and Saflex Divisions' net sales in 1994 were higher than those in 1993, primarily because of sales volume increases worldwide. Selling prices stabilized compared with those in 1993, principally in the United States.

## Prior Year Review

In 1993, The Chemical Group benefited from lower raw material prices, cost reduction efforts, and an improved U.S. economy. However, the group was adversely affected

by the recession in Europe and Japan, which continued to constrict demand for chemical products.

The Chemical Group's 1993 net sales were slightly lower than net sales in 1992. Sales volumes increased 3 percent from sales volumes in 1992. This increase was offset by lower selling prices, principally in the Plastics and Resins Divisions. The sales volume increase in 1993 was primarily in the United States, and benefited from a stronger market for replacement carpet. Sales volumes also benefited from increased U.S. automotive production, which rebounded from 1992 levels. Various product sales volumes in Europe, Japan and the former Soviet Union declined as a result of weak demand.

Operating income in 1993 more than tripled when compared with 1992 operating income. However, a number of unusual items affected profitability both years. In 1993, operating income benefited from \$43 million in gains from the sale of several nonstrategic businesses, partially offset by expenses related to facility rationalization and other costs. In 1992, operating income was adversely affected by \$77 million in restructuring expenses associated with implementing further cost cutting actions; \$41 million in costs associated with the settlement of certain litigation related to the Brio Superfund site; and \$30 million in expenses related to a facility asset impairment.

#### Chemical Group Outlook

In 1995, The Chemical Group intends to merge its rubber chemicals and instruments businesses with the rubber chemicals business of Akzo Nobel N.V. to form a 50/50 joint venture. The new organization will serve the global rubber industry. When the venture is formed, certain redundant activities and functions for the combined businesses are expected to be consolidated, and a one-time charge will be recorded. Net sales and operating income of the joint venture will not be included with those of The Chemical Group. The Chemical Group's share of the joint venture's earnings will be reflected in "Other income (expense)—net" in the Statement of Consolidated Income.

The Chemical Group's outlook is for growth based on continued improvement of existing businesses through process redesign and cost reductions, development of new markets for existing or modified products, development of new products, and growth through rational and synergistic acquisitions.

## Searle

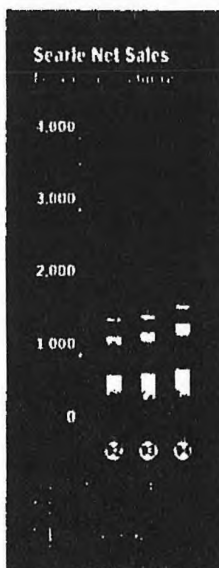
|                         | 1994    | 1993    | 1992     |
|-------------------------|---------|---------|----------|
| Net Sales               | \$1,681 | \$1,546 | \$1,503  |
| Operating Income (Loss) | \$ 72   | \$ (13) | \$ (288) |

**Searle develops, produces and markets prescription pharmaceuticals. Its products include medications to relieve the symptoms of arthritis, to control high blood pressure, to relieve insomnia, to prevent the formation of ulcers, and to treat certain infections.**

Searle's 1994 net sales were 9 percent higher than net sales last year. This increase in net sales was driven by 10 percent higher volumes, partially offset by lower net selling prices. Sales growth from new products — led by *Daypro*, a once-daily arthritis treatment, *Ambien*, a short-term treatment for insomnia, and *Arthrotec*, a combination of *Cytotec* ulcer preventive drug with the nonsteroidal anti-inflammatory drug *diclofenac*, for the treatment of arthritis — more than offset a decline in sales of the *Calan* family of calcium channel blockers. In total, these new products contributed \$310 million to 1994 net sales. Net sales of the *Calan* family of products, sold primarily in Canada and the United States, were \$321 million, 8 percent lower than last year's. This decline primarily reflected the effect of generic competition on *Calan* SR in the United States. However, the effect was substantially reduced by Searle's sales of verapamil SR resulting from a distribution arrangement

with a generic distributor. Net sales of *Canderel* tabletop sweetener, made with *NutraSweet* brand sweetener and marketed by Searle outside the United States, were \$155 million in 1994, up 3 percent from net sales in 1993, due to higher sales volumes.

Searle's operating income in 1994 was \$72 million compared with an operating loss of \$13 million in 1993. Unusual items included in 1994 operating income were \$16 million in restructuring charges, principally related





to employment reductions; and \$35 million in reversals of prior year restructuring reserves, primarily for higher than anticipated proceeds and lower exit costs related to certain divested facilities. Operating results in 1994 benefited from increased sales of new products, lower new product introduction costs in 1994, and cost savings, primarily from restructuring actions initiated in 1992.

An analysis of the change in operating income shows:

|                                                      | Better (Worse)   |                  |
|------------------------------------------------------|------------------|------------------|
|                                                      | 1994 vs.<br>1993 | 1993 vs.<br>1992 |
| Selling prices                                       | \$ (24)          | \$ (34)          |
| Sales volumes and mix                                | 100              | 94               |
| Restructuring                                        | 16               | 268              |
| Marketing, administrative and technological expenses | 1                | (31)             |
| Other                                                | (8)              | (22)             |
| <b>Change in operating income</b>                    | <b>\$ 85</b>     | <b>\$275</b>     |

Searle's investment in research and development (R&D) continues to be significant. R&D expenditures were 20 percent of the unit's net sales for both 1994 and 1993. Future R&D spending is also expected to be significant, and Searle will continue to seek R&D collaborations to share development costs and combine strengths to speed development. This investment reflects Searle's commitment to securing a continuing stream of new products through discovery and development.

#### Prior Year Review

Searle's 1993 net sales were 3 percent higher than 1992 net sales, driven by 5 percent higher volumes, partially offset by lower net selling prices. Sales growth from new products more than offset a decline in sales of *Calan*. New product introductions included *Daypro* and *Ambien* in the United States and *Arthrotec* in the United Kingdom, Canada, Sweden and Ireland. In total, these products contributed \$159 million to 1993 net sales. Net sales of *Calan*, sold primarily in the U.S. and Canadian markets, were \$350 million, 23 percent lower than those in 1992. This decline primarily reflected the effect of generic competition in the United States. Sales in 1993 of *Maxaquin* quinolone anti-infective agent were almost 50 percent higher than those in 1992, the year the product was launched in the United States. But 1993 sales of *Maxaquin* were short of expectations because of photosensitivity issues. Net sales of *Canderel* were \$151 million in 1993, down 4 percent from net sales in 1992, because of a stronger U.S. dollar.

Operating results in 1993 benefited from cost savings, primarily from restructuring actions initiated in 1992. However, results were negatively affected by substantial new product introduction costs and global health care reforms. The 1992 operating loss included a \$265 million pretax restructuring charge.

#### Searle Outlook

 *Arthrotec*, a combination of *Cytotec* ulcer preventive drug and diclofenac for the treatment of arthritis, was launched in the Netherlands and Portugal in 1994. Additional launches in Germany and Italy, as well as the filing of the U.S. new product application, are anticipated in 1995. *Cytotec* has now been approved in all major markets. Recent clinical developments related to *Cytotec* are believed to represent a potential opportunity to enhance future sales and performance of this product.

*Calan* calcium channel blocker participates in an increasingly competitive market for antihypertensive drugs and faces generic competition. This increased competition is likely to continue to affect the future sales and profits of *Calan* adversely. Searle, in conjunction with ALZA Corp., is developing a formulation of verapamil hydrochloride (the active ingredient in *Calan*) with proprietary delayed-release technology. The new product application for Verapamil OROS was recently filed with the Food and Drug Administration for marketing approval in the United States. A positive review could enhance Searle's competitive position for such hypertension products.

Searle's current product development activities are focused on areas of strategic importance. In addition to Verapamil OROS, Searle is developing drugs for the treatment of cardiovascular conditions, including an oral antiplatelet agent to inhibit blood clots from forming after bypass surgery or angioplasty; tissue factor pathway inhibitor (TFPI) to be used during microvascular surgery to prevent blood clots; and epoxymexrenone for the treatment of hypertension, congestive heart failure and cirrhosis. COX-2 inhibitor, in early development as an improved treatment for arthritis, could potentially increase Searle's participation in this important therapeutic market. Other products in development include eliprodil, a neuroprotective agent to limit the damage caused by stroke, and IL-3 synthokine to help chemotherapy patients replenish white blood cells and platelets more rapidly.



# The NutraSweet Company

|                  | 1994  | 1993  | 1992  |
|------------------|-------|-------|-------|
| Net Sales        | \$652 | \$705 | \$879 |
| Operating Income | \$139 | \$145 | \$ 72 |

The NutraSweet Company manufactures and markets sweeteners, including *NutraSweet* brand sweetener, and *Equal* and *NutraSweet Spoonful* tabletop sweeteners, and other food ingredients. Approximately 90 percent of NutraSweet's net sales are in the U.S. market. *NutraSweet* brand sweetener is produced and sold by 50 percent-owned European joint ventures in the European market. These sales and operating income are not included with those of NutraSweet. NutraSweet's share of the European joint ventures' earnings is reflected in "Other income (expense) — net" in the Statement of Consolidated Income.

In 1994, NutraSweet's net sales decreased 8 percent from 1993 net sales as the result of lower average selling prices of *NutraSweet* brand sweetener. This decline was expected, and resulted from lower postpatent prices in the United States for that product. Sales volumes for *NutraSweet* brand sweetener decreased slightly from those in 1993, primarily due to lower contractual shipments to customers. Sales volumes for *Equal* and *NutraSweet Spoonful* increased 4 percent in 1994 from those in 1993.

NutraSweet's 1994 operating income decreased 4 percent from 1993 operating income. Operating income in 1994 and 1993 included pretax restructuring charges for work force reductions of \$6 million and \$12 million, respectively. The decline in 1994 resulted from lower average selling prices and lower sales volumes, which were partially offset by lower operating expenses and higher sales of tabletop sweeteners.

An analysis of the change in operating income shows:

|                                                                  | Better (Worse)   |                  |
|------------------------------------------------------------------|------------------|------------------|
|                                                                  | 1994 vs.<br>1993 | 1993 vs.<br>1992 |
| Sales decline (lower selling prices and change in sales volumes) | \$(64)           | \$(177)          |
| Restructuring charge                                             | 6                | 12               |
| Inventory adjustment                                             |                  | 46               |
| Patent amortization                                              |                  | 173              |
| Other, principally lower operating costs                         | 52               | 19               |
| Change in operating income                                       | \$ (6)           | \$ 73            |

## Prior Year Review

In 1993, NutraSweet's net sales decreased 20 percent from 1992 net sales as the result of lower average selling prices of *NutraSweet* brand sweetener. This decline was expected, and resulted from lower postpatent prices in the United States for that product. Sales volumes for *NutraSweet* brand sweetener were 6 percent higher than those in 1992, led by growth in the private label and specialty flavor segments of the diet soft drink market.

Sales volumes for *Equal* and *NutraSweet Spoonful* tabletop sweeteners increased 7 percent in 1993 from those in 1992. Despite the expiration of its aspartame-use patent, NutraSweet increased its market share in 1993 in the U.S. tabletop market as the result of the successful launch of *NutraSweet Spoonful* in mid-1992.

NutraSweet's 1993 operating income included a pretax restructuring charge of \$12 million, and 1992 operating income was reduced by a \$46 million inventory write-down and by restructuring actions totaling \$24 million. The improvement in 1993 operating income resulted from reduced operating expenses and from lower amortization expense, as the U.S. aspartame-use patent was fully amortized in 1992. These lower expenses more than offset the lower average selling prices.

## NutraSweet Outlook

The market prospects for high-intensity sweeteners, such as aspartame, are strong worldwide as an ingredient and in tabletop products. NutraSweet has built important competitive market advantages, including brand name identity, logo recognition, and the reputation as a superior quality, highly reliable supplier. In addition, *NutraSweet* brand sweetener potentially offers an economical replacement for sugar in certain markets.

Competition from generic aspartame producers and other sweeteners now being reviewed by the U.S. Food and Drug Administration could negatively affect sales in the future. This could adversely affect operating income and cash flow.

The United States will remain the principal market for *NutraSweet* brand sweetener in 1995, but international markets offer significant growth potential, particularly in the tabletop category.

NutraSweet is developing a next-generation, high-intensity sweetener and expects to file a food additive petition with the U.S. Food and Drug Administration near the end of the decade.

## Geographic Data

|                        | Net Sales to<br>Unaffiliated Customers |                |                | Operating<br>Income (Loss) <sup>(1)</sup> |              |              | Total Assets   |                |                |
|------------------------|----------------------------------------|----------------|----------------|-------------------------------------------|--------------|--------------|----------------|----------------|----------------|
|                        | 1994                                   | 1993           | 1992           | 1994                                      | 1993         | 1992         | 1994           | 1993           | 1992           |
| United States          | \$5,376                                | \$5,162        | \$4,964        | \$507                                     | \$656        | \$ 181       | \$5,844        | \$5,928        | \$5,641        |
| Europe-Africa          | 1,653                                  | 1,559          | 1,652          | 340                                       | 129          | (168)        | 1,947          | 1,801          | 2,046          |
| Asia-Pacific           | 552                                    | 533            | 566            | 39                                        | (2)          | 50           | 586            | 502            | 533            |
| Canada                 | 318                                    | 311            | 290            | 37                                        | 28           | 18           | 135            | 121            | 147            |
| Latin America          | 373                                    | 337            | 291            | 65                                        | 43           | 29           | 300            | 261            | 242            |
| Interarea Eliminations |                                        |                |                | 3                                         | 9            | 7            | (237)          | (246)          | (324)          |
| Corporate              |                                        |                |                | (68)                                      | (53)         | (59)         | 316            | 273            | 800            |
| <b>Total</b>           | <b>\$8,272</b>                         | <b>\$7,902</b> | <b>\$7,763</b> | <b>\$923</b>                              | <b>\$810</b> | <b>\$ 58</b> | <b>\$8,891</b> | <b>\$8,640</b> | <b>\$9,085</b> |

The data above are prepared on an "entity basis," which means that net sales, operating income and assets of a legal entity are assigned to the geographic area where the legal entity is located. For example, a sale from the United States to Latin America is reported as a U.S. export sale. Interarea sales, which are sales between Monsanto locations in different world areas, were made on a market price basis. Interarea sales have been excluded from the above table and were:

|                          | 1994        | 1993        | 1992        |
|--------------------------|-------------|-------------|-------------|
| World area shipped from: |             |             |             |
| United States            | \$ 682      | \$ 625      | \$ 683      |
| Europe-Africa            | 248         | 133         | 105         |
| Asia-Pacific             | 5           | 2           | 5           |
| Canada                   | 44          | 38          | 33          |
| Latin America            | 2           | 4           | 2           |
| Interarea Eliminations   | (981)       | (802)       | (828)       |
| <b>Total</b>             | <b>\$ —</b> | <b>\$ —</b> | <b>\$ —</b> |

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

|                                                               | 1994           | 1993           | 1992            |
|---------------------------------------------------------------|----------------|----------------|-----------------|
| Operating income (loss)                                       | \$ 481         | \$ 198         | \$ (71)         |
| Interest and other income (expense) — net                     | (33)           | (16)           | (89)            |
| Income taxes                                                  | (133)          | (67)           | 54              |
| <b>Net Income (Loss) of Consolidated Ex-U.S. Subsidiaries</b> | <b>\$ 315</b>  | <b>\$ 115</b>  | <b>\$ (106)</b> |
| Total operating assets                                        | \$2,968        | \$2,685        | \$2,968         |
| Total liabilities                                             | 1,088          | 1,080          | 1,416           |
| <b>Net Assets of Consolidated Ex-U.S. Subsidiaries</b>        | <b>\$1,880</b> | <b>\$1,605</b> | <b>\$1,552</b>  |

The reported operating income for the individual geographic areas does not include the full profitability generated by sales of Monsanto products imported from other locations, principally from the United States.

Direct export sales from the United States to third-party customers outside the United States were \$399 million in 1994, \$435 million in 1993 and \$393 million in 1992.

Sales and operating income for the geographic segments do not include the financial results from those joint venture companies in which Monsanto does not have management control. Monsanto's share of the income or loss of these companies is reflected in "Other income (expense) — net" in the Statement of Consolidated Income. Monsanto's share of the unconsolidated net sales and income or loss of these companies for 1994 follows:

|               | Monsanto's Share |               |
|---------------|------------------|---------------|
|               | Net Sales        | Income (Loss) |
| United States | \$179            | \$10          |
| Europe-Africa | 90               | 2             |
| Asia-Pacific  | 20               | (2)           |
| Latin America | 130              | 10            |

<sup>(1)</sup> Geographic area operating income was affected by the 1994, 1993 and 1992 restructurings and other unusual items as follows:

|               | Income (Expense) |              |                |
|---------------|------------------|--------------|----------------|
|               | 1994             | 1993         | 1992           |
| United States | \$(105)          | \$ 78        | \$(327)        |
| Europe-Africa | 69               | (26)         | (295)          |
| Asia-Pacific  | (11)             | (15)         | 13             |
| Canada        | 2                | (4)          | (8)            |
| Latin America | 9                | (2)          | (1)            |
| Corporate     | (4)              | (1)          | (6)            |
| <b>Total</b>  | <b>\$ (40)</b>   | <b>\$ 30</b> | <b>\$(624)</b> |

# Statement of Consolidated Financial Position

(Dollars in millions, except per share)

As of Dec. 31,

| ASSETS                                                                                        | 1994           | 1993           |
|-----------------------------------------------------------------------------------------------|----------------|----------------|
| <b>Current Assets:</b>                                                                        |                |                |
| Cash and cash equivalents                                                                     | \$ 507         | \$ 273         |
| Trade receivables, net of allowances of \$57 in 1994 and \$51 in 1993                         | 1,530          | 1,445          |
| Miscellaneous receivables and prepaid expenses                                                | 313            | 388            |
| Deferred income tax benefit                                                                   | 321            | 342            |
| Inventories                                                                                   | 1,212          | 1,224          |
| <b>Total Current Assets</b>                                                                   | <b>3,883</b>   | <b>3,672</b>   |
| <b>Property, Plant and Equipment:</b>                                                         |                |                |
| Land                                                                                          | 102            | 107            |
| Buildings                                                                                     | 1,268          | 1,237          |
| Machinery and equipment                                                                       | 5,916          | 5,793          |
| Construction in progress                                                                      | 269            | 245            |
| Total property, plant and equipment                                                           | 7,555          | 7,382          |
| Less accumulated depreciation                                                                 | 4,738          | 4,580          |
| <b>Net Property, Plant and Equipment</b>                                                      | <b>2,817</b>   | <b>2,802</b>   |
| <b>Investments in Affiliates</b>                                                              | <b>279</b>     | <b>227</b>     |
| <b>Intangible Assets</b> , net of accumulated amortization of \$522 in 1994 and \$450 in 1993 | <b>1,134</b>   | <b>1,189</b>   |
| <b>Other Assets</b>                                                                           | <b>778</b>     | <b>750</b>     |
| <b>Total Assets</b>                                                                           | <b>\$8,891</b> | <b>\$8,640</b> |
| <b>LIABILITIES AND SHAREOWNERS' EQUITY</b>                                                    |                |                |
| <b>Current Liabilities:</b>                                                                   |                |                |
| Accounts payable                                                                              | \$ 629         | \$ 538         |
| Wages and benefits                                                                            | 343            | 299            |
| Income and other taxes                                                                        | 150            | 140            |
| Restructuring reserves                                                                        | 129            | 255            |
| Miscellaneous accruals                                                                        | 872            | 840            |
| Short-term debt                                                                               | 312            | 223            |
| <b>Total Current Liabilities</b>                                                              | <b>2,435</b>   | <b>2,295</b>   |
| <b>Long-Term Debt</b>                                                                         | <b>1,405</b>   | <b>1,502</b>   |
| <b>Deferred Income Taxes</b>                                                                  | <b>65</b>      | <b>54</b>      |
| <b>Postretirement Liabilities</b>                                                             | <b>1,341</b>   | <b>1,256</b>   |
| <b>Other Liabilities</b>                                                                      | <b>697</b>     | <b>678</b>     |
| <b>Shareowners' Equity:</b>                                                                   |                |                |
| Common stock (authorized, 200,000,000 shares, par value \$2)                                  |                |                |
| Issued, 164,394,194 shares in 1994 and 1993                                                   | 329            | 329            |
| Additional contributed capital                                                                | 849            | 826            |
| Treasury stock, at cost (52,859,031 shares in 1994 and 48,418,545 shares in 1993)             | (2,744)        | (2,348)        |
| Reserve for ESOP debt retirement                                                              | (199)          | (218)          |
| Unrealized investment holding gain                                                            | 19             |                |
| Accumulated currency adjustment                                                               | 33             | (59)           |
| Reinvested earnings                                                                           | 4,661          | 4,325          |
| <b>Total Shareowners' Equity</b>                                                              | <b>2,948</b>   | <b>2,855</b>   |
| <b>Total Liabilities and Shareowners' Equity</b>                                              | <b>\$8,891</b> | <b>\$8,640</b> |

The above statement should be read in conjunction with pages 47 through 57 of this report.  
ESOP stands for Employee Stock Ownership Plan.

## Financial Position Remains Strong

Monsanto's financial position remained strong in 1994, as evidenced by Monsanto's current "A" debt rating. Financial resources were adequate to support existing businesses and to fund new business opportunities.

Working capital was higher at year-end 1994, principally because of higher cash and cash equivalent balances, offset, in part, by higher short-term commercial paper borrowings. Trade receivables at year-end 1994 increased compared with those at the prior year-end, primarily because of higher fourth-quarter sales of The Agricultural Group. Inventories at year-end 1994 declined slightly, primarily because of planned inventory reductions in The Chemical Group.

The amount of net property, plant and equipment was higher than at year-end 1993, as \$409 million in capital additions and the effect of a stronger U.S. dollar exceeded 1994 depreciation expense.

Total deferred tax benefits, both current and non-current, of \$392 million at year-end 1994 are primarily related to U.S. operations, which generally have a strong earnings history.

Long-term debt at year-end 1994 was lower than that at the prior year-end primarily because of principal payments on the company's medium term notes.

On Feb. 20, 1995, Monsanto completed its acquisition of the worldwide business of Kelco, the specialty chemicals division of Merck & Co. Inc., for approximately \$1,075 million. Kelco is the worldwide leader in the development, application and production of alginates and biogums. Monsanto will fund the acquisition through

a combination of cash and debt. Net sales in 1995 will benefit from the acquisition of Kelco. However, the effect on Monsanto's 1995 operating income from the acquisition is expected to be slightly dilutive.

Monsanto uses financial markets worldwide for its financing needs and has available various short- and medium-term bank credit facilities, which are discussed in the Notes to Financial Statements (page 51). These credit facilities provide the financing flexibility to let Monsanto take advantage of investment opportunities that may arise and to satisfy future funding requirements. To maintain adequate financial flexibility and access to debt markets worldwide, Monsanto management intends to maintain an "A" debt rating. The company's strong financial position will not be significantly affected by the debt issued to fund the Kelco acquisition.

In October 1991, Monsanto's board of directors approved the establishment of an Employee Stock Ownership Plan (ESOP). In January 1992, the ESOP purchased from Monsanto \$250 million in common stock, which is being used to match employee contributions under the company's existing savings and investment plan. A more detailed description of the ESOP is provided in the Notes to Financial Statements on page 54.

In February 1994, Monsanto established a grantor trust that had been approved by the board of directors. A more detailed description of the grantor trust is provided in the Notes to Financial Statements on page 55.

Monsanto's commitments and contingencies are described in the Notes to Financial Statements on page 55.

Monsanto's return on shareowners' equity (ROE) was 21.4 percent in 1994. The ROE and other key financial statistics are presented in the table below.

| KEY FINANCIAL STATISTICS                                                                                                                | 1994  | 1993  | 1992   |
|-----------------------------------------------------------------------------------------------------------------------------------------|-------|-------|--------|
| <b>Return on Shareowners' Equity (ROE)</b><br>(Net income divided by average shareowners' equity)                                       | 21.4% | 16.9% | (2.6)% |
| <b>Current Ratio</b> (Current assets divided by current liabilities)                                                                    | 1.6   | 1.6   | 1.6    |
| <b>Trade Receivables-Days Sales Outstanding</b><br>(Fourth-quarter trade receivables divided by fourth-quarter net sales times 30 days) | 67    | 71    | 67     |
| <b>Inventory Turnover Ratio</b> (Cost of goods sold divided by inventory)                                                               | 3.9   | 3.7   | 4.1    |
| <b>Interest Coverage</b><br>(Income before interest expense and income taxes divided by total interest cost)                            | 7.3   | 6.1   | —      |
| <b>Cash Provided by Operations/Total Debt</b>                                                                                           | 76%   | 42%   | 54%    |
| <b>Total Debt/Total Capitalization*</b>                                                                                                 | 37%   | 38%   | 36%    |

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



# Statement of Consolidated Shareowners' Equity

(Dollars in millions, except per share)

|                                                                                                                                     | 1994      | 1993      | 1992      |
|-------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|
| <b>COMMON STOCK:</b>                                                                                                                |           |           |           |
| Balance, Jan. 1 and Dec. 31                                                                                                         | \$ 329    | \$ 329    | \$ 329    |
| <b>ADDITIONAL CONTRIBUTED CAPITAL:</b>                                                                                              |           |           |           |
| Balance, Jan. 1                                                                                                                     | \$ 826    | \$ 820    | \$ 726    |
| Employee stock plans and ESOP                                                                                                       | 23        | 6         | 94        |
| Balance, Dec. 31                                                                                                                    | \$ 849    | \$ 826    | \$ 820    |
| <b>TREASURY STOCK:</b>                                                                                                              |           |           |           |
| Balance, Jan. 1                                                                                                                     | \$(2,348) | \$(2,029) | \$(1,797) |
| Shares purchased (6,170,016; 5,795,600; and 6,732,300 shares in 1994, 1993 and 1992, respectively)                                  | (478)     | (380)     | (417)     |
| Shares issued under employee stock plans and ESOP (1,729,530; 1,306,882; and 4,269,180 shares in 1994, 1993 and 1992, respectively) | 82        | 61        | 185       |
| Balance, Dec. 31                                                                                                                    | \$(2,744) | \$(2,348) | \$(2,029) |
| <b>RESERVE FOR ESOP DEBT RETIREMENT:</b>                                                                                            |           |           |           |
| Balance, Jan. 1                                                                                                                     | \$ (218)  | \$ (233)  | \$ (250)  |
| Allocation of ESOP shares                                                                                                           | 19        | 15        | 17        |
| Balance, Dec. 31                                                                                                                    | \$ (199)  | \$ (218)  | \$ (233)  |
| <b>UNREALIZED INVESTMENT HOLDING GAIN:</b>                                                                                          |           |           |           |
| Balance, Jan. 1                                                                                                                     | \$ 15     |           |           |
| Net change in market value                                                                                                          | 4         |           |           |
| Balance, Dec. 31                                                                                                                    | \$ 19     |           |           |
| <b>ACCUMULATED CURRENCY ADJUSTMENT:</b>                                                                                             |           |           |           |
| Balance, Jan. 1                                                                                                                     | \$ (59)   | \$ 15     | \$ 187    |
| Translation adjustments                                                                                                             | 92        | (74)      | (172)     |
| Balance, Dec. 31                                                                                                                    | \$ 33     | \$ (59)   | \$ 15     |
| <b>REINVESTED EARNINGS:</b>                                                                                                         |           |           |           |
| Balance, Jan. 1                                                                                                                     | \$ 4,325  | \$ 4,103  | \$ 4,459  |
| Net income (loss)                                                                                                                   | 622       | 494       | (88)      |
| Dividends (net of ESOP tax benefits)                                                                                                | (286)     | (272)     | (268)     |
| Balance, Dec. 31                                                                                                                    | \$ 4,661  | \$ 4,325  | \$ 4,103  |

The above statement should be read in conjunction with pages 47 through 57 of this report.  
ESOP stands for Employee Stock Ownership Plan.

| KEY FINANCIAL STATISTICS                                 |                     | 1994  | 1993  | 1992  |
|----------------------------------------------------------|---------------------|-------|-------|-------|
| Stock Price*                                             | High                | \$86¼ | \$75  | \$71¼ |
|                                                          | Low                 | 66½   | 48½   | 49¾   |
|                                                          | Year-End            | 70½   | 73½   | 57½   |
| Per Share                                                | Dividends           | 2.47  | 2.30  | 2.20  |
|                                                          | Shareowners' Equity | 26.43 | 24.62 | 24.95 |
| Average Daily Share Trading Volume (thousands of shares) |                     | 376   | 335   | 392   |

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

# Statement of Consolidated Cash Flow

| (Dollars in millions)                                               | 1994         | 1993         | 1992         |
|---------------------------------------------------------------------|--------------|--------------|--------------|
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>             |              |              |              |
| <b>OPERATING ACTIVITIES:</b>                                        |              |              |              |
| Income (Loss) from continuing operations                            | \$ 622       | \$ 494       | \$ (126)     |
| Add income taxes — continuing operations                            | 273          | 235          | (48)         |
| Income (Loss) from continuing operations before income taxes        | 895          | 729          | (174)        |
| Adjustments to reconcile to Cash Provided by Continuing Operations: |              |              |              |
| Income tax payments                                                 | (196)        | (166)        | (162)        |
| Items that did not use cash:                                        |              |              |              |
| Depreciation and amortization                                       | 561          | 572          | 765          |
| Restructuring expenses — net                                        | 40           | 5            | 436          |
| Incremental SFAS No. 106 expenses                                   | 48           | 48           | 45           |
| Other                                                               | (5)          | (19)         | 157          |
| Working capital changes that provided (used) cash:                  |              |              |              |
| Accounts receivable                                                 | (88)         | 62           | 21           |
| Inventories                                                         | 15           | (31)         | (30)         |
| Accounts payable and accrued liabilities                            | (125)        | (202)        | (107)        |
| Other                                                               | 74           | 34           | (125)        |
| Other items                                                         | 81           | (10)         | 22           |
| <b>Cash Provided by Continuing Operations</b>                       | <b>1,300</b> | <b>1,022</b> | <b>848</b>   |
| <b>Cash Provided by (Used in) Discontinued Operations</b>           |              | <b>(291)</b> | <b>64</b>    |
| <b>Total Cash Provided by Operations</b>                            | <b>1,300</b> | <b>731</b>   | <b>912</b>   |
| <b>INVESTING ACTIVITIES:</b>                                        |              |              |              |
| Property, plant and equipment purchases                             | (409)        | (437)        | (586)        |
| Acquisition and investment payments                                 | (185)        | (510)        | (259)        |
| Investment and property disposal proceeds                           | 202          | 298          | 177          |
| Proceeds from sale of Fisher Controls                               |              |              | 1,275        |
| Discontinued operations — other                                     |              |              | (30)         |
| <b>Cash Provided by (Used in) Investing Activities</b>              | <b>(392)</b> | <b>(649)</b> | <b>577</b>   |
| <b>FINANCING ACTIVITIES:</b>                                        |              |              |              |
| Net change in short-term financing                                  | 89           | (31)         | (78)         |
| Long-term debt proceeds                                             | 49           | 379          | 120          |
| Long-term debt reductions                                           | (152)        | (299)        | (565)        |
| Treasury stock purchases                                            | (478)        | (380)        | (417)        |
| Dividend payments                                                   | (289)        | (275)        | (270)        |
| Common stock issued to ESOP                                         |              |              | 250          |
| Other financing activities                                          | 107          | 68           | 11           |
| <b>Cash Used in Financing Activities</b>                            | <b>(674)</b> | <b>(538)</b> | <b>(949)</b> |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>             | <b>234</b>   | <b>(456)</b> | <b>540</b>   |
| <b>CASH AND CASH EQUIVALENTS:</b>                                   |              |              |              |
| Beginning of year                                                   | 273          | 729          | 189          |
| End of year                                                         | \$ 507       | \$ 273       | \$ 729       |

The above statement should be read in conjunction with pages 47 through 57 of this report.

The effect of exchange rate changes on cash and cash equivalents was not material.

Cash payments for interest (net of amounts capitalized) were \$129 million, \$133 million and \$176 million for the years 1994, 1993 and 1992, respectively.

During 1991, Monsanto established an Employee Stock Ownership Plan (ESOP). Monsanto was guarantor of \$70 million of ESOP notes and \$100 million of ESOP debentures as of Dec. 31, 1994.

Monsanto's cash flow for 1994, 1993 and 1992 is shown in the Statement of Consolidated Cash Flow on the preceding page.

## Cash Flow Remains Strong

Cash provided by continuing operations of \$1,300 million was strong in 1994, 27 percent higher than that in 1993. This outstanding improvement was due primarily to higher net income in 1994, but also to successful efforts in streamlining working capital requirements and in inventory management. Working capital as a percentage of net sales was about the same as that for last year. Cash from continuing operations was generated primarily by The Chemical Group, The Agricultural Group and The NutraSweet Company.

Monsanto's operations have historically generated sufficient cash to fund existing businesses and growth-related research and investments. Management expects that cash provided by operations, supplemented by

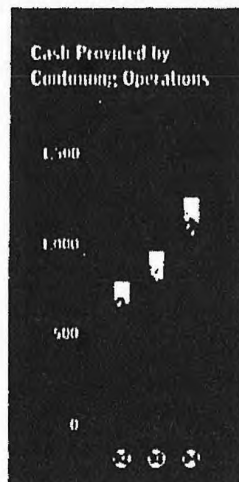
periodic borrowings, will be adequate to fund future requirements.

Other investment and property disposals in 1994 generated more than \$200 million in cash. The principal proceeds in 1994, 1993 and 1992 were from the sales of various businesses associated with restructuring actions.

In 1992, Monsanto received \$1,275 million in cash from the sale of Fisher Controls. A portion of the cash proceeds was used to reduce debt and to purchase Monsanto common

stock. Cash used by discontinued operations in 1993 was for income taxes related to the sale of Fisher Controls.

Major uses of cash for 1994, 1993 and 1992 included dividends, capital expenditures, and treasury stock purchases. The acquisition of the Ortho lawn-and-garden products business in 1993 and investments in various 1992 acquisitions were also major uses of cash. Monsanto's 1994 capital expenditures focused on improved technology, capacity expansions and environmental projects, and totaled \$409 million. Business redesign efforts and productivity enhancements were successful in increasing effective capacity at many facilities, reducing the need for additional capital expenditures.



Long-term debt repayments in 1993 included \$150 million in 9% percent debentures. Long-term debt repayments in 1992 included \$145 million in 11% percent debentures, \$141 million in 8% percent debentures, \$104 million in 8% percent debentures, and \$51 million in industrial revenue bonds.

Monsanto continually evaluates risk retention and insurance levels for product liability, property damage and other potential areas of risk. Monsanto devotes significant effort to maintaining and improving safety and internal control programs, which reduce its exposure to certain risks. Based on the cost and availability of insurance and the likelihood of a loss, management decides the amount of insurance coverage to purchase from unaffiliated companies and the appropriate amount of risk to retain. Since 1986, Monsanto's liability insurance has been on the "claims made" policy form. Management believes that the current levels of risk retention are consistent with those of other companies in the various industries in which Monsanto operates. There can be no assurance that Monsanto will not incur losses beyond the limits of, or outside the coverage of, its insurance. Monsanto's liquidity, financial position and profitability are not expected to be affected materially by the levels of risk retention that the company accepts.

## Monsanto Maintains Strong Environmental Commitment

Monsanto is subject to various laws and government regulations concerning environmental matters, employee safety and employee health. It is anticipated that increasingly stringent requirements will be imposed upon Monsanto, its competitors and industry in general. Monsanto is dedicated to a long-term environmental protection program that reduces emissions of hazardous materials into the environment, as well as to the remediation of identified existing environmental concerns. In 1988, management committed to a 90 percent reduction in toxic air emissions from worldwide operations by the end of 1992. Monsanto achieved its goal, based on 1992 year-end operating rates. The cost to accomplish this target did not materially affect operating results. In fact, some of the targeted capital projects lowered operating costs and improved operating efficiency.

Expenditures in 1994 were approximately \$47 million for environmental capital projects and approximately

\$202 million for management of environmental programs, including the operation and maintenance of facilities for environmental control. Monsanto estimates that during 1995 and 1996 approximately \$35 million to \$45 million per year will be spent on additional capital projects for environmental protection.

Monsanto periodically receives notices from the U.S. Environmental Protection Agency (EPA) that it is a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), commonly known as Superfund. The EPA has designated Monsanto as a PRP at 92 Superfund sites. Monsanto has resolved disputes, entered partial consent decrees, and executed administrative orders between Monsanto and the EPA in 47 of these cases, settling a portion or all of Monsanto's liability for these Superfund cases. Six other matters involve sites where allegations are predicated on tentative findings of reuse of drums by others that once contained products sold by Monsanto. These six matters have been inactive as to Monsanto for at least 10 years. At one other site, Monsanto has determined that it has no liability whatsoever.

Monsanto's policy is to accrue costs for remediation of waste disposal sites in the accounting period in which the responsibility is established and the cost is estimable. Monsanto's estimates of its liabilities for Superfund sites are based on evaluations of currently available facts with respect to each individual site and take into consideration factors such as existing technology, presently enacted laws and regulations, and prior experience in remediation of contaminated sites. Monsanto does not discount these liabilities, and they have not been reduced for any claims for recoveries from insurance or from third parties. However, Monsanto is engaged in litigation with some of its insurance carriers regarding both the applicability and the amount of its coverage responsive to claims for damages at these sites. Monsanto has an accrued liability of \$72 million as of Dec. 31, 1994, for Superfund sites. As assessments and remediation activities progress at individual sites, these liabilities are reviewed periodically and adjusted to reflect additional technical, engineering and legal information that becomes available. Major sites in this category include the noncompany-owned Brio, Fike/Artel, Motco and Woburn sites, which account for \$54 million of the accrued amount.

Monsanto's estimate of its Superfund liability is affected by several uncertainties such as, but not limited to, the method and extent of remediation, the percentage of material attributable to Monsanto at the sites relative

to that attributable to other parties, and the financial capabilities of the other PRPs at most sites. Due to these uncertainties, primarily related to the method and extent of remediation, potential future expenses could be as much as \$25 million for these sites. These potential future expenses may be incurred over the balance of the decade.

There are various other lawsuits, claims and proceedings that state agencies and others have asserted against the company seeking remediation of alleged environmental impairments. Monsanto is in the process of determining its involvement, if any, at 41 of these sites. Monsanto has an accrued liability of \$108 million as of Dec. 31, 1994, for these matters and for environmental reserves at certain former Monsanto plant sites. The company's estimate of its liability related to these sites is affected by several uncertainties such as, but not limited to, the extent of Monsanto's involvement, and the method and extent of remediation. Due to these uncertainties, potential future expenses could be as much as \$75 million for these sites. Four sites in this category account for \$58 million of the accrued amount and for approximately \$55 million of the potential future expenses.

Monsanto spent \$52 million in 1994 for remediation of Superfund and other waste disposal sites. Most of these expenditures related to The Chemical Group, and similar or greater amounts can be expected in future years.

For hazardous and other waste facilities at operating locations, Monsanto recognizes post-closure environmental costs and remediation costs over the estimated remaining useful life of the related facilities, not to exceed 20 years. Monsanto spent \$13 million in 1994 for remediation of these facilities and has an accrued liability of \$27 million as of Dec. 31, 1994, for these sites. Uncertainties related to these costs are evolving government regulations, the method and extent of remediation, and future changes in technology. Monsanto's estimated closure costs for these facilities are approximately \$135 million.

While the ultimate costs and results of remediation of waste disposal sites cannot be predicted with certainty, Monsanto's liquidity, financial position and profitability are not expected to be materially affected.

## Common Stock Purchase Program Continued in 1994

In October 1992, Monsanto's board of directors authorized the purchase of 12 million shares of Monsanto common stock. This authority is in addition to the normal repurchase of shares for compensation and benefits



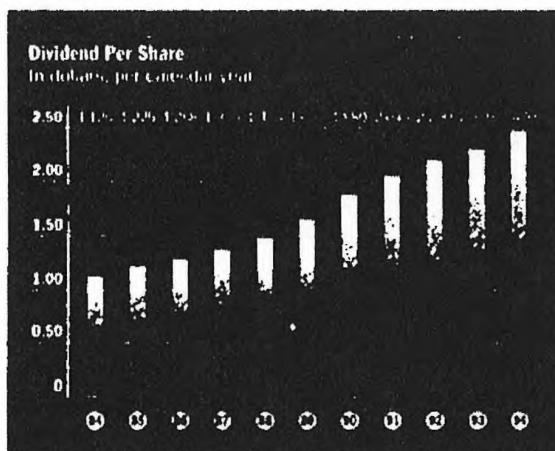
programs. In 1994, Monsanto purchased 6.2 million shares at a cost of \$478 million. Since June 1987, Monsanto has purchased 55.8 million shares at a cost of \$3,028 million. Management believes that the stock purchase program represents an appropriate use of excess cash.

## Dividend Increases for the 22nd Consecutive Year

Monsanto has paid quarterly dividends on its common shares without interruption or reduction since 1928, and has increased the dividend per share in each of the past 22 years. Dividend payout for 1994 was 22 percent of cash provided by operations. Monsanto's dividend policy reflects a desired long-term payout percentage based on Monsanto's expectations of future growth and profitability levels.

For both common stock repurchases and dividends in any individual year, additional consideration is given to expected financial position and results, acquisitions, 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 share-owners of record as of Feb. 24, 1995, was 53,312. The high and low common stock prices on that date were \$79¼ and \$78¼.



▲ Monsanto's dividend per share on a calendar year basis has increased 120 percent since 1984.

## Significant Accounting Policies

Monsanto's significant accounting policies are italicized in the following Notes to Financial Statements. Previously reported amounts have been reclassified consistent with the 1994 presentation.

## Basis of Consolidation

The consolidated financial statements include the company and its majority-owned subsidiaries. Intercompany transactions have been eliminated in consolidation. Other companies in which Monsanto has a significant ownership interest (generally greater than 20 percent) are included in "Investments in Affiliates" in the Statement of Consolidated Financial Position. Monsanto's share of these companies' income or loss is included in "Other income (expense) — net" in the Statement of Consolidated Income.

## Currency Translation

The financial statements for most of Monsanto's ex-U.S. entities are translated into U.S. dollars at current exchange rates. Unrealized currency adjustments in the Statement of Consolidated Financial Position are accumulated in share-owners' equity. The financial statements of ex-U.S. entities that operate in hyperinflationary economies, principally Brazil, are translated at either current or historical exchange rates, as appropriate. These currency adjustments are included in net income.

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

Currency option contracts are purchased to manage currency exposure for anticipated transactions (for example, expected export sales in the following year denominated in foreign currencies). Currency forward contracts and option contracts are used to manage other currency exposures, primarily for receivables and payables outside the United States. This hedging activity is intended to protect the company from adverse fluctuations in currencies vs. the U.S. dollar.

As of Dec. 31, 1994, Monsanto had currency forward contracts to purchase \$119 million and to sell \$179 million, and purchased currency option contracts to sell \$256 million of other currencies, principally the French franc, Japanese yen, Canadian dollar and British pound sterling. *Gains and losses on contracts that are designated and effective as hedges are deferred and are included in the recorded value of the transaction being hedged.* Net deferred hedging losses as of Dec. 31, 1994, were not material. *Gains and losses on other currency forward and option contracts are included in net income immediately.* Monsanto is subject to loss if the counterparties to these contracts do not perform.

## Restructuring and Other Actions

In December 1994, the board of directors approved a plan to eliminate redundant staff activities across the company and consolidate certain staff and administrative business functions. The plan will result in reductions in worldwide employment levels of approximately 500 people. In addition, the company will close or exit certain facilities and programs. These work force reductions and closures will be substantially completed by the end of 1995. The pretax expense related to these actions was \$89 million (\$55 million aftertax).

In September 1994, Monsanto received \$67 million from the U.S. Internal Revenue Service in settlement of certain tax matters related to the 1985 acquisition of Searle. This settlement included interest of \$33 million (\$21 million aftertax), recorded as a one-time gain. Most of the remainder of the proceeds reduced the balance of unamortized goodwill related to the Searle acquisition.

In December 1993, the board of directors approved a small reserve to cover the sale or exit from some non-strategic products, the withdrawal from the pyridine research program in The Agricultural Group, and the consolidation of some manufacturing capacity. The net pretax expense related to these actions was \$5 million (\$7 million aftertax) and principally affected The Agricultural and Chemical Groups.

In the first quarter of 1993, Monsanto recognized a \$35 million pretax gain resulting from reimbursement from insurance companies of various costs associated with damage in January 1992 to a manufacturing unit that produces a key raw material for Roundup herbicide. These costs had been expensed in 1992 pending resolution of the claim.

In November 1992, the board of directors approved a series of actions designed to make Monsanto's worldwide operations more focused, productive and cost-effective. Major elements included reductions in employment; a realignment of selected research investments; a number of consolidations, closings and asset write-downs; and sales of nonstrategic businesses and facilities. These actions principally affected Searle, but also included a reduction in corporate staff and additional fine-tuning of other operating units.

Other unusual items in 1992 included the aforementioned costs incurred from damage in January 1992 to a facility that makes Roundup herbicide and from the settlement in the second quarter of 1992 of certain lawsuits related to the Brio Superfund site.

The components of the pretax expense (income) related to the restructuring programs and the other unusual items were:

|                                                                  | 1994        | 1993          | 1992         |
|------------------------------------------------------------------|-------------|---------------|--------------|
| Cost of employee reductions                                      | \$ 68       | \$ 5          | \$224        |
| Shutdown and consolidation of various facilities and departments | (25)        | 51            | 164          |
| Asset write-downs                                                |             |               | 188          |
| Glyphosate plant damage costs (settlement)                       |             | (35)          | 42           |
| Brio litigation settlement                                       |             |               | 41           |
| Other costs (income)                                             | (22)        | 47            | 111          |
| Gains on business sales                                          | (14)        | (98)          | (71)         |
| <b>Total</b>                                                     | <b>\$ 7</b> | <b>\$(30)</b> | <b>\$699</b> |

*In addition, Monsanto recognized net restructuring expenses of \$457 million in 1991, primarily for the shutdown and consolidation of various facilities.*

Restructuring expenses are recorded based on estimates prepared at the time the restructuring actions are approved by the board of directors. In the fourth quarter of 1994, the board approved the reversal of \$49 million of pretax excess restructuring reserves from prior years. The excess was primarily due to higher than expected proceeds and lower exit costs from the sale and shutdown of nonstrategic businesses and facilities included in the 1993 and 1992 restructuring actions. The balance in restructuring reserves as of Dec. 31, 1994, was \$254 million, and consisted primarily of work force reduction costs under the 1994 actions and planned facility dismantling and site closure costs remaining under previous restructurings. Management believes that the balance of these reserves as of Dec. 31, 1994, is adequate for completion of those activities. Reductions to restructuring liabilities

over the last three years for restructuring actions taken were approximately \$1.1 billion. Approximately two-thirds of these reductions were for write-offs and expenditures related to the closure or sale of nonstrategic products and facilities. Most of the remainder of the reductions related to the cost of work force reduction programs, which have been completed.

The pretax expenses (income) related to the restructuring programs and the other unusual items were recorded in the Statement of Consolidated Income in the following categories:

|                                                                                           | 1994        | 1993          | 1992         |
|-------------------------------------------------------------------------------------------|-------------|---------------|--------------|
| Cost of goods sold                                                                        |             | \$(35)        | \$188        |
| Restructuring expense — net                                                               | \$ 40       | 5             | 436          |
| Decrease (Increase) in operating income                                                   | 40          | (30)          | 624          |
| Interest income                                                                           | (33)        |               |              |
| Other expense                                                                             |             |               | 75           |
| <b>Total decrease (increase) in income from continuing operations before income taxes</b> | <b>\$ 7</b> | <b>\$(30)</b> | <b>\$699</b> |

Income from continuing operations was decreased by \$1 million aftertax, or \$0.01 per share, for 1994; increased by \$15 million aftertax, or \$0.12 per share, for 1993; and reduced by \$472 million aftertax, or \$3.82 per share, for 1992 from the effect of these restructurings and unusual items. Product sales of businesses targeted for divestiture in these restructurings were excluded from Monsanto's net sales after the board of directors approved the divestitures. Net sales and operating income for these businesses in 1993 and 1992, included in Monsanto's net sales and operating income, were:

|                  | 1993  | 1992  |
|------------------|-------|-------|
| Net sales        | \$208 | \$289 |
| Operating income | \$ 1  | \$ 26 |

## Principal Acquisitions and Divestitures

On Feb. 20, 1995, Monsanto completed its acquisition of the worldwide business of Kelco, the specialty chemicals division of Merck & Co. Inc., for approximately \$1,075 million. Kelco is the worldwide leader in the development, application and production of alginates and biogums.

In December 1994, Monsanto and Akzo Nobel N.V. agreed to form a 50/50 joint venture by contributing their respective rubber chemicals businesses. When formed, the venture will be accounted for as an equity affiliate.

In May 1993, Monsanto purchased the assets, including a seasonally high amount of working capital, of the Ortho Consumer Products Division of Chevron Chemical Co. for \$412 million. The acquisition included total assets with a fair market value of \$327 million and liabilities of \$51 million. The financial results of the Ortho business were included in the Statement of Consolidated Income from the date of acquisition.

On an unaudited, pro forma basis, assuming the acquisition of Ortho had occurred at the beginning of 1993 and 1992, Monsanto's net sales in each of those years would have been approximately \$8 billion. Net income (loss) and earnings per share for those years would not have been significantly different from the reported amounts.

In October 1992, Monsanto sold the worldwide Fisher Controls business. Monsanto received \$1,275 million in cash, which resulted in an aftertax gain of \$554 million (net of applicable income taxes of \$371 million). Financial data for the nine months ended Sept. 30, 1992, for Fisher Controls were: net sales, \$679 million; income before income taxes, \$37 million; income taxes, \$13 million; and net income, \$24 million.

## Depreciation and Amortization

|                                   | 1994         | 1993         | 1992         |
|-----------------------------------|--------------|--------------|--------------|
| Depreciation                      | \$442        | \$469        | \$473        |
| Amortization of intangible assets | 81           | 81           | 237          |
| Obsolescence                      | 38           | 22           | 55           |
| <b>Total</b>                      | <b>\$561</b> | <b>\$572</b> | <b>\$765</b> |

Property, plant and equipment is recorded at cost. The cost of plant and equipment is depreciated over weighted average periods of 18 years for buildings and 10 years for machinery and equipment, by the straight-line method.

Intangible assets are recorded at cost less accumulated amortization. The components of intangible assets and their estimated remaining useful lives were:

|                         | Estimated Remaining Life* | 1994           | 1993           |
|-------------------------|---------------------------|----------------|----------------|
| Goodwill                | 26                        | \$ 776         | \$ 798         |
| Patents                 | 6                         | 48             | 62             |
| Other intangible assets | 14                        | 310            | 329            |
| <b>Total</b>            |                           | <b>\$1,134</b> | <b>\$1,189</b> |

\*Weighted average, in years, as of Dec. 31, 1994.

Goodwill is the cost of acquired businesses in excess of the fair value of their identifiable net assets and is amortized over the estimated periods of benefit (five to 40 years).



Patents obtained in a business acquisition are recorded at the present value of estimated future cash flows resulting from patent ownership. The cost of patents is amortized over their legal lives. The cost of other intangible assets (principally product rights and trademarks) is amortized over their estimated useful lives.

Impairment tests of long-lived assets are made when conditions indicate a possible loss. Such impairment tests are based on a comparison of undiscounted cash flows to the recorded value of the asset. If an impairment is indicated, the asset value is written down to its discounted cash value, using an appropriate discount rate.

## Investments

Effective Jan. 1, 1994, Monsanto adopted Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which requires that certain investments, primarily equity securities, be recorded at their market values. The Jan. 1, 1994, adoption of this standard resulted in a \$15 million increase, net of taxes of \$7 million, in investment balances and shareowners' equity by the recognition of a net unrealized investment holding gain. As of Dec. 31, 1994, the aggregate fair value of these equity securities was \$140 million, and gross unrealized holding gains and losses were \$44 million and \$8 million, respectively.

Debt securities held are recorded at amortized cost, because the company has the ability and intent to hold these securities to their maturity date. Most of these securities mature in less than five years. As of Dec. 31, 1994, the total amortized cost of these securities was \$247 million.

When a decline in market value is deemed other than temporary, the reduction to the investment in a security is charged to expense.

## Inventory Valuation

Inventories are stated at cost or market, whichever is less. Actual cost is used to value raw materials and supplies. Standard cost, which approximates actual cost, is used to value finished goods and goods in process. Standard cost includes direct labor and raw materials, and manufacturing overhead based on practical capacity. The cost of certain inventories (54 percent as of Dec. 31, 1994) is determined by using the last-in, first-out (LIFO) method, which generally reflects the effects of inflation or deflation on cost of goods sold sooner than other inventory cost methods. The cost of other inventories generally is determined by using the first-in, first-out (FIFO) method.

The components of inventories were:

|                               | 1994           | 1993           |
|-------------------------------|----------------|----------------|
| Finished goods                | \$ 751         | \$ 734         |
| Goods in process              | 285            | 319            |
| Raw materials and supplies    | 459            | 430            |
| Inventories, at FIFO cost     | 1,495          | 1,483          |
| Excess of FIFO over LIFO cost | (283)          | (259)          |
| <b>Total</b>                  | <b>\$1,212</b> | <b>\$1,224</b> |

Inventories at FIFO cost approximate current cost. The effect of LIFO inventory liquidations increased pretax income by \$15 million in 1994 and by \$31 million in 1993.

## Income Taxes

The components of income (loss) from continuing operations before income taxes were:

|                       | 1994         | 1993         | 1992            |
|-----------------------|--------------|--------------|-----------------|
| United States         | \$447        | \$547        | \$ (14)         |
| Outside United States | 448          | 182          | (160)           |
| <b>Total</b>          | <b>\$895</b> | <b>\$729</b> | <b>\$ (174)</b> |

The components of income tax expense (benefit) charged to continuing operations were:

|                       | 1994         | 1993         | 1992           |
|-----------------------|--------------|--------------|----------------|
| Current:              |              |              |                |
| U.S. federal          | \$118        | \$113        | \$ 56          |
| U.S. state            | 17           | 12           | 24             |
| Outside United States | 94           | 56           | 19             |
|                       | 229          | 181          | 99             |
| Deferred:             |              |              |                |
| U.S. federal          | 2            | 35           | (59)           |
| U.S. state            | 3            | 8            | (15)           |
| Outside United States | 39           | 11           | (73)           |
|                       | 44           | 54           | (147)          |
| <b>Total</b>          | <b>\$273</b> | <b>\$235</b> | <b>\$ (48)</b> |

Factors causing Monsanto's effective tax rate for continuing operations to differ from the U.S. federal statutory rate were:

|                                  | 1994        | 1993       | 1992         |
|----------------------------------|-------------|------------|--------------|
| U.S. federal statutory rate      | 35%         | 35%        | (34)%        |
| Benefits attributable to:        |             |            |              |
| U.S. export earnings             | (1)         | (2)        | (9)          |
| Puerto Rican operations          | (2)         | (1)        | (4)          |
| Higher (lower) ex-U.S. rates     | —           | (3)        | (12)         |
| Nondeductible goodwill           | 1           | 1          | 3            |
| Valuation allowances             | (1)         | 5          | 19           |
| Effect of U.S. tax rate change   |             | (2)        |              |
| State income taxes               | 1           | 2          | 2            |
| Other                            | (2)         | (3)        | 7            |
| <b>Effective income tax rate</b> | <b>.31%</b> | <b>32%</b> | <b>(28)%</b> |



In 1992, the income taxes netted against the gain on the sale of Fisher Controls and the cumulative effect of adopting Statement of Financial Accounting Standards (SFAS) No. 106 exceeded the 34 percent U.S. federal statutory rate, primarily because of the effect of state income taxes.

Monsanto adopted SFAS No. 109, "Accounting for Income Taxes," effective Jan. 1, 1992, and recognized a gain of \$118 million, or \$0.96 per share. This gain has been reflected in the Statement of Consolidated Income as a cumulative effect of an accounting change. Deferred income tax balances reflect the effect of temporary differences between the amounts of assets and liabilities for income tax purposes, compared with the respective amounts for financial statement purposes.

Deferred income tax balances were related to:

|                           | 1994          |             | 1993          |             |
|---------------------------|---------------|-------------|---------------|-------------|
|                           | Asset         | Liability   | Asset         | Liability   |
| Property                  | \$(383)       | \$40        | \$(347)       | \$49        |
| Postretirement benefits   | 475           | 8           | 480           | 2           |
| Restructuring reserves    | 69            | (3)         | 128           | 9           |
| Environmental liabilities | 69            |             | 93            |             |
| Inventory                 | 35            |             | 44            |             |
| Other                     | 212           | 20          | 145           | (6)         |
| Valuation allowances      | (85)          |             | (89)          |             |
| <b>Total</b>              | <b>\$ 392</b> | <b>\$65</b> | <b>\$ 454</b> | <b>\$54</b> |

Income and remittance taxes have not been recorded on \$700 million in undistributed earnings of subsidiaries, either because any taxes on dividends would be offset substantially by foreign tax credits or because Monsanto intends to reinvest those earnings indefinitely. If such earnings were paid as dividends, the estimated U.S. income tax would be \$96 million.

## Short-Term Debt and Credit Arrangements

Short-term debt was:

|                                                                 | 1994         | 1993         |
|-----------------------------------------------------------------|--------------|--------------|
| Notes payable to banks                                          | \$ 79        | \$ 49        |
| Commercial paper                                                | 75           | 16           |
| Bank overdrafts                                                 | 77           | 67           |
| Current portion of long-term debt                               | 81           | 91           |
| <b>Total</b>                                                    | <b>\$312</b> | <b>\$223</b> |
| Weighted average interest rates of notes payable as of Dec. 31: |              |              |
| Banks*                                                          | 5.1%         | 6.8%         |
| Commercial paper                                                | 4.1%         | 3.1%         |

\*Includes the effect of notes in certain countries where local inflation results in high interest rates.

Monsanto had aggregate short-term loan facilities of \$299 million, under which loans totaling \$79 million were outstanding as of Dec. 31, 1994. Interest on these loans is related to various bank rates. Monsanto's worldwide unused short-term loan facilities were \$220 million as of Dec. 31, 1994. On Feb. 2, 1995, Monsanto amended its existing \$750 million credit facility to expire in the year 2000, and to permit the company to request that the lenders increase their commitments to an aggregate of \$1 billion. There were no borrowings under the previous facility as of Dec. 31, 1994. Also on Feb. 2, 1995, Monsanto entered into a new \$450 million credit agreement with a term of 364 days. Monsanto may request that the lenders under that agreement increase their commitments up to an aggregate of \$650 million, and/or agree to renew the agreement for additional 364-day periods. To the extent that lenders decline to increase or, in the case of the 364-day agreement, renew their commitments, Monsanto may request that new lenders become parties to the agreements. These credit facilities will be used to support the issuance of commercial paper. Interest on amounts borrowed under these agreements would likely be at money market rates. Covenants under these credit facilities restrict maximum borrowings. The company does not anticipate that future borrowings will be limited by these restrictions.

## Long-Term Debt

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

|                                                                                                   | 1994           | 1993           |
|---------------------------------------------------------------------------------------------------|----------------|----------------|
| Industrial revenue bond obligations, average rate in 1994 of 5.3% due 1996 to 2028                | \$ 347         | \$ 353         |
| Medium-term notes, rates in 1994 ranging from 8.4% to 9.0%, due 1996 to 2005                      | 200            | 247            |
| Commercial paper, swapped to an effective rate of 8.6% through February 1996                      | 181            | 187            |
| 6% notes due 2000                                                                                 | 150            | 150            |
| 7.09% and 8.13% amortizing ESOP notes and debentures due 2000 and 2006, guaranteed by the company | 160            | 170            |
| 8 7/8% debentures due 2009                                                                        | 99             | 99             |
| 8.7% debentures due 2021                                                                          | 100            | 100            |
| Other                                                                                             | 168            | 196            |
| <b>Total</b>                                                                                      | <b>\$1,405</b> | <b>\$1,502</b> |

Maturities and sinking fund requirements on long-term debt are \$81 million, \$280 million, \$68 million, \$68 million and \$70 million for 1995, 1996, 1997, 1998 and 1999, respectively.

Commercial paper balances of \$181 million and \$187 million as of Dec. 31, 1994 and 1993, respectively, have been classified as long-term debt. Monsanto has the ability and intent to renew these obligations past 1995 and into future periods.

Interest rate swap agreements are used to reduce interest rate risks and to manage interest expense. By entering into these agreements, the company changes the fixed/variable interest rate mix of the debt portfolio. As of Dec. 31, 1994, Monsanto was party to interest rate swap agreements with an aggregate notional principal amount of \$377 million related to existing debt. The agreements are primarily for conversion of floating-rate debt into fixed rates, which reduces the company's risk of incurring higher interest costs in periods of rising interest rates. Monsanto is subject to loss if the counterparties to these agreements do not perform. *Interest differentials from swap agreements to be paid or received are accrued as interest rates change over the related debt period.*

## Fair Value of Financial Instruments

The estimated fair values of Monsanto's financial instruments were:

|                                            | 1994            |            | 1993            |            |
|--------------------------------------------|-----------------|------------|-----------------|------------|
|                                            | Recorded Amount | Fair Value | Recorded Amount | Fair Value |
| <b>Assets:</b>                             |                 |            |                 |            |
| Investments in securities and other assets | \$409           | \$400      | \$328           | \$339      |
| Foreign currency option contracts          | 7               | 5          | 6               | 3          |
| <b>Liabilities:</b>                        |                 |            |                 |            |
| Currency swaps                             | 2               | 9          | 3               | 9          |
| Interest rate swaps                        | 1               | 17         | 3               | 23         |
| Long-term debt                             | 1,405           | 1,408      | 1,502           | 1,590      |

The recorded amounts of cash, trade receivables, discounted receivables, third-party guarantees, foreign currency forward contracts, accounts payable, and short-term debt approximate their fair values.

Fair values are estimated using quoted market prices, estimates obtained from brokers, and other appropriate valuation techniques based on information available as of Dec. 31, 1994. The fair-value estimates do not necessarily reflect the values Monsanto could realize in the current market.

## Postretirement Benefits – Pensions

Most Monsanto employees are covered by noncontributory pension plans. The components of pension cost (income) were:

|                                                  | 1994         | 1993          | 1992        |
|--------------------------------------------------|--------------|---------------|-------------|
| Service cost for benefits earned during the year | \$ 75        | \$ 75         | \$ 65       |
| Interest cost on benefit obligation              | 269          | 285           | 272         |
| Assumed return on plan assets*                   | (317)        | (342)         | (291)       |
| Amortization of unrecognized net gain            | (12)         | (26)          | (41)        |
| <b>Total</b>                                     | <b>\$ 15</b> | <b>\$ (8)</b> | <b>\$ 5</b> |

\*Actual returns (losses) on plan assets were \$(142) million, \$550 million and \$230 million in 1994, 1993 and 1992, respectively.

Pension benefits are based on the employee's years of service and/or compensation level. Pension plans are funded in accordance with Monsanto's long-range projections of the plans' financial conditions. These projections take into account benefits earned and expected to be earned, anticipated returns on pension plan assets, and income tax and other regulations.

Pension costs are determined by using the preceding year-end rate assumptions. Assumptions used as of Dec. 31 for the principal plans were:

|                                                                                            | 1994 | 1993  | 1992 |
|--------------------------------------------------------------------------------------------|------|-------|------|
| Discount rate                                                                              | 8.5% | 7.25% | 8.5% |
| Assumed long-term rate of return on plan assets                                            | 9.5% | 9.50% | 9.5% |
| Annual rates of salary increase (for plans that base benefits on final compensation level) | 5.0% | 4.25% | 6.0% |

The funded status of Monsanto's pension plans at year-end was:

|                                                                      | 1994           | 1993           |
|----------------------------------------------------------------------|----------------|----------------|
| <b>Plan assets at fair value</b>                                     | <b>\$3,358</b> | <b>\$3,827</b> |
| Actuarial present value of plan benefits:                            |                |                |
| Vested                                                               | \$2,913        | \$3,266        |
| Nonvested                                                            | 130            | 120            |
| Accumulated benefit obligation                                       | 3,043          | 3,386          |
| Effect of projected future salary increases                          | 360            | 373            |
| <b>Projected benefit obligation<sup>(1)</sup></b>                    | <b>\$3,403</b> | <b>\$3,759</b> |
| Excess (Deficiency) of plan assets over projected benefit obligation | \$ (45)        | \$ 68          |
| Less:                                                                |                |                |
| Unrecognized initial net gain                                        | 121            | 161            |
| Unrecognized prior service costs                                     | (202)          | (261)          |
| Unrecognized subsequent net gain                                     | 206            | 305            |
| <b>Accrued net pension liability<sup>(2)</sup></b>                   | <b>\$ 170</b>  | <b>\$ 137</b>  |

<sup>(1)</sup>Includes \$146 million and \$122 million, respectively, for unfunded plans.

<sup>(2)</sup>Includes \$126 million and \$108 million, respectively, for unfunded plans.

The accrued net pension liability was included in:

|                                      |               |               |
|--------------------------------------|---------------|---------------|
| Postretirement liabilities           | \$ 225        | \$ 185        |
| Less: Other assets                   | (55)          | (48)          |
| <b>Accrued net pension liability</b> | <b>\$ 170</b> | <b>\$ 137</b> |

As a result of employment reductions from the 1992 restructuring program, Monsanto settled a portion of its projected benefit obligation through lump-sum payments to retirees in 1993. Accordingly, \$30 million of accrued net pension liability was transferred to restructuring reserves during 1993.

Included in the aforementioned table, plan assets and projected benefit obligations for the principal U.S. plans were approximately \$2,983 million and \$2,883 million, respectively, as of Dec. 31, 1994. The assumptions used to compute the funded status of the principal U.S. plans were changed as of Dec. 31, 1994. These changes in assumptions resulted in a decrease of approximately \$360 million in the projected benefit obligation.

Plan assets consist principally of common stocks and U.S. government and corporate obligations. Because the company's principal pension plans are well funded, contributions to these plans were neither required nor made in 1994, 1993 and 1992.

## Postretirement Benefits – Health Care and Other

Monsanto provides certain health care and life insurance benefits for retired employees. Substantially all of Monsanto's regular, full-time U.S. employees and certain employees in other countries may become eligible for these benefits if they reach retirement age while employed by Monsanto. These postretirement benefits are unfunded and are generally based on the employee's years of service and/or compensation level.

Monsanto adopted Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective Jan. 1, 1992, and recognized an aftertax expense of \$658 million (\$1,045 million pretax), or \$5.34 per share, for retiree benefits earned through 1991. The expense was included in the Statement of Consolidated Income as a cumulative effect of an accounting change. SFAS No. 106 requires that the cost of other postretirement benefits be accrued by the date the employees become eligible for the benefits.

The components of the cost of these postretirement benefits, principally health care and life insurance, were:

|                                                  | 1994         | 1993         | 1992         |
|--------------------------------------------------|--------------|--------------|--------------|
| Service cost for benefits earned during the year | \$ 23        | \$ 24        | \$ 26        |
| Interest cost on benefit obligation              | 87           | 92           | 88           |
| Amortization of unrecognized net loss            | 7            | —            | —            |
| <b>Total</b>                                     | <b>\$117</b> | <b>\$116</b> | <b>\$114</b> |

Postretirement costs are determined by using the preceding year-end rate assumptions. Assumptions used as of Dec. 31 for the principal plans were:

|                                           | 1994  | 1993   | 1992  |
|-------------------------------------------|-------|--------|-------|
| Discount rate                             | 8.5%  | 7.25%  | 8.5%  |
| Initial trend rate for health care costs* | 11.5% | 12.00% | 14.0% |
| Ultimate trend rate for health care costs | 5.5%  | 5.00%  | 6.0%  |

\*The initial trend rate for health care costs declines by 1 percent a year to 5.5 percent for years after the year 2000.

A 1 percent increase in the assumed trend rate for health care costs would have increased the cost of 1994 postretirement health care benefits by \$4 million and the accumulated benefit obligation as of Dec. 31, 1994, by \$50 million.

As of Dec. 31, the status of Monsanto's postretirement health care and life insurance benefit plans, and employee disability benefit plans was:

|                                          | 1994           | 1993           |
|------------------------------------------|----------------|----------------|
| <b>Accumulated benefit obligations:</b>  |                |                |
| Retirees                                 | \$ 869         | \$ 870         |
| Eligible active employees                | 55             | 86             |
| Other active employees                   | 214            | 277            |
| <b>Total</b>                             | <b>\$1,138</b> | <b>\$1,233</b> |
| Unrecognized benefits from prior service | 43             | 36             |
| Unrecognized subsequent net gain (loss)  | 17             | (126)          |
| <b>Accrued liability</b>                 | <b>\$1,198</b> | <b>\$1,143</b> |

The accrued liability was included in:

|                            |                |                |
|----------------------------|----------------|----------------|
| Miscellaneous accruals     | \$ 82          | \$ 72          |
| Postretirement liabilities | 1,116          | 1,071          |
| <b>Accrued liability</b>   | <b>\$1,198</b> | <b>\$1,143</b> |

The assumptions used to compute the accumulated benefit obligation of the principal plans were changed as of Dec. 31, 1994, resulting in a decrease of approximately \$100 million in the obligation.

## Employee Savings Plans

For some employee savings plans, employee contributions are matched in part by Monsanto. Matching contributions charged to expense for such plans were \$30 million in 1994, \$31 million in 1993 and \$33 million in 1992.

During 1991, Monsanto established an Employee Stock Ownership Plan (ESOP) and guaranteed the long-term notes and debentures issued by the ESOP. The ESOP also borrowed \$50 million from Monsanto. In January 1992, the ESOP used the proceeds of the loans to purchase 3.7 million shares of common stock from Monsanto, a portion of which is allocated each year to employee savings accounts as matching contributions. *Unallocated shares held by the ESOP are considered outstanding for earnings per share calculations.* The proceeds from the issuance of common stock to the ESOP were used primarily for the purchase of an equivalent number of common shares under a treasury stock purchase program. *Compensation expense is equal to the cost of the shares allocated to participants, less dividends paid on the ESOP shares held.* Dividends on the common stock owned by the ESOP are being used to repay the ESOP borrowings. In 1994, 324,020 shares were allocated to participants under the plan, leaving 2,976,155 unallocated shares as of Dec. 31, 1994.

|                                        | 1994 | 1993 | 1992 |
|----------------------------------------|------|------|------|
| Total ESOP expense                     | \$29 | \$25 | \$28 |
| Interest portion of total ESOP expense | 17   | 18   | 19   |
| Cash contribution                      | 19   | 20   | 19   |
| Dividends paid on ESOP shares held     | 9    | 9    | 8    |

## Stock Option Plans

Key officers and employees have been granted Monsanto stock options under the company's 1994 Management Incentive Plans, the Searle Monsanto Stock Option Plan (Searle Plan), and the NutraSweet/Monsanto Stock Plan (NutraSweet Plan). Information about the status of such stock options is presented below:

|               | Exercisable Shares | Outstanding |                 |
|---------------|--------------------|-------------|-----------------|
|               | Shares             | Shares      | Price per Share |
| Dec. 31, 1992 | 5,140,969          | 10,142,705  | \$21.31-\$74.25 |
| <b>1993:</b>  |                    |             |                 |
| Granted       | 4,710,999          | 51.19-      | 65.81           |
| Exercised     | (1,253,869)        | 21.31-      | 68.13           |
| Expired       | (337,230)          | 41.13-      | 73.56           |
| Dec. 31, 1993 | 5,724,125          | 13,262,605  | 22.81- 74.25    |
| <b>1994:</b>  |                    |             |                 |
| Granted       | 2,579,294          | 69.44-      | 82.06           |
| Exercised     | (1,821,245)        | 22.81-      | 74.25           |
| Expired       | (311,874)          | 38.94-      | 77.75           |
| Dec. 31, 1994 | 7,168,599          | 13,708,780  | 22.81- 82.06    |



Under the 1994 Management Incentive Plans, the Searle Plan and the NutraSweet Plan, 5,510,925 shares remain available for grant.

In February 1994, Monsanto established a grantor trust and contributed 2.5 million shares of Monsanto common stock to be used to satisfy compensation and benefit arrangements and obligations, including issuance of shares upon the exercise of certain stock options. Shares held by the grantor trust are included in earnings per share calculations only after they are transferred to employees.

## Earnings per Share

Earnings per share were computed using the weighted average number of common shares and common share equivalents outstanding each year (116,984,960 in 1994; 120,380,516 in 1993; and 123,443,744 in 1992). Common share equivalents (2,399,245 in 1994; 1,314,921 in 1993; and 1,041,096 in 1992) 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.

## Capital Stock

As of Dec. 31, 1994, there were 19,219,705 common shares reserved for employee stock options.

In January 1990, the company's board of directors declared a dividend of one preferred stock purchase right on each outstanding share of the company's common stock. If a person or group acquires beneficial ownership of 20 percent or more, or announces a tender offer that would result in beneficial ownership of 20 percent or more, of the company's outstanding common stock, the rights become exercisable and each right will then entitle its holder to purchase one one-hundredth of a share of a new series of preferred stock for \$450. If Monsanto is acquired in a business combination transaction while the rights are outstanding, each right will entitle its holder to purchase, for \$450, common shares of the acquiring company having a market value of \$900. In addition, if a person or group acquires beneficial ownership of 20 percent or more of the company's outstanding common stock, each right will entitle its holder (other than such person or members of such group) to purchase, for \$450, a number of shares of the company's common stock having a market value of \$900. Furthermore, at any time after a person or group acquires beneficial ownership of

20 percent or more (but less than 50 percent) of the company's outstanding common stock, the board of directors may, at its option, exchange part or all of the rights (other than rights held by the acquiring person or group) for shares of the company's common stock on a one-for-one basis. At any time prior to the acquisition of such a 20 percent position, the company can redeem each right for \$0.01. The board of directors is also authorized to reduce the aforementioned 20 percent thresholds to not less than 10 percent. The rights expire in the year 2000.

## Commitments and Contingencies

Commitments, principally in connection with uncompleted additions to property, were approximately \$45 million as of Dec. 31, 1994. Excluding the ESOP notes and debentures, Monsanto was contingently liable as a guarantor for bank loans and for discounted customers' receivables totaling approximately \$311 million and \$316 million as of Dec. 31, 1994 and 1993, respectively. Future minimum payments under noncancelable operating leases and unconditional inventory purchases are \$119 million for 1995, \$96 million for 1996, \$117 million for 1997, \$59 million for 1998, \$60 million for 1999, and \$106 million thereafter.

The more significant concentrations in Monsanto's trade receivables at year-end were:

|                                            | 1994  | 1993  |
|--------------------------------------------|-------|-------|
| U.S. agricultural product distributors     | \$295 | \$294 |
| European agricultural product distributors | 103   | 117   |
| Pharmaceutical distributors worldwide      | 287   | 287   |
| Customers in the former Soviet Union       | 40    | 78    |

Management does not anticipate incurring losses on its trade receivables in excess of established allowances.

Costs for remediation of waste disposal sites are accrued in the accounting period in which the responsibility is established and when the cost is estimable. Monsanto's Statement of Consolidated Financial Position included accrued liabilities of \$207 million and \$266 million as of Dec. 31, 1994 and 1993, respectively, for the remediation of identified waste disposal sites. Expenditures related to remediation activities were \$65 million in 1994, \$53 million in 1993 and \$46 million in 1992.

Monsanto's future remediation expenses for waste disposal sites are affected by a number of uncertainties, including, but not limited to, the method and extent of remediation, the percentage of material attributable to Monsanto at the sites relative to that attributable to other parties, and the financial capabilities of the other potentially responsible parties (PRPs). Because of the uncertainties associated with remediation activities, Monsanto's potential future expenses to remediate these sites could approximate an additional \$100 million.

*Post-closure and remediation costs for hazardous and other waste facilities at operating locations are accrued over the estimated life of the facility as part of its anticipated closure cost.* Monsanto's estimated closure costs for these facilities could approximate \$135 million. Uncertainties related to these costs include evolving government standards, the method and extent of remediation, and future changes in technology.

On April 20, 1994, a federal court jury verdict was returned against Monsanto in a lawsuit related to a Superfund site in La Marque, Texas. The lawsuit was brought by IT Corp. (IT), a subsidiary of International Technology Corp., claiming fraud, negligent misrepresentation and breach of a contract calling for IT to perform incineration and remediation work at the site. The verdict awarded IT \$52.8 million in compensatory damages, \$28.6 million in punitive damages and \$2.6 million in fees. On Dec. 13, 1994, the federal trial judge set aside the jury's findings of fraud and negligent misrepresentation, but upheld the finding on breach of contract. The court set aside the punitive damage award and reduced the amount of compensatory damages to \$43.8 million. On Jan. 26, 1995, the trial judge issued a memorandum confirming that prejudgment interest would be awarded to IT and specifying the manner in which the amount of such interest should be calculated. Based upon that memorandum, it is not likely that such interest will exceed approximately \$21 million. No judgment has yet been entered. The company believes, based on the advice of counsel, that it has meritorious defenses to all of IT's claims. The company will appeal the judgment when it is entered and will continue to defend this matter vigorously. No provision has been made in the company's consolidated financial statements with respect to this matter.

Monsanto is a party to a number of lawsuits and claims, which it is vigorously defending. Such matters arise out of the normal course of business and relate to product liability, government regulation, including environmental issues, and other issues. Certain of the lawsuits and claims 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, profitability or liquidity in any one year.

## Supplemental Data

Supplemental income statement data were:

|                                                                                   | 1994    | 1993    | 1992    |
|-----------------------------------------------------------------------------------|---------|---------|---------|
| Raw material and energy costs                                                     | \$2,375 | \$2,258 | \$2,247 |
| Employee compensation and benefits                                                | 2,193   | 2,092   | 1,994   |
| Current income and other taxes                                                    | 477     | 442     | 393     |
| Rent expense                                                                      | 124     | 129     | 138     |
| Technological expenses:                                                           |         |         |         |
| Research and development                                                          | 609     | 626     | 651     |
| Engineering, commercial development and patent                                    | 65      | 69      | 69      |
| Total technological expenses                                                      | 674     | 695     | 720     |
| Interest expense:                                                                 |         |         |         |
| Total interest cost                                                               | 141     | 141     | 185     |
| Less capitalized interest                                                         | (10)    | (12)    | (16)    |
| Net interest expense                                                              | 131     | 129     | 169     |
| Currency gains (losses) including equity in affiliates' currency gains and losses | (23)    | (6)     | (39)    |

## Segment Information

Certain operating unit segment data and geographic data for 1994, 1993 and 1992 that appear on pages 33 and 40 are integral parts of the accompanying financial statements. The principal product lines included in each operating unit are shown in the operating unit segment data.

## Quarterly Data (unaudited)

|                     |      | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Total<br>Year |
|---------------------|------|------------------|-------------------|------------------|-------------------|---------------|
| Net Sales           | 1994 | \$2,001          | \$2,269           | \$1,912          | \$2,090           | \$8,272       |
|                     | 1993 | 1,941            | 2,230             | 1,849            | 1,882             | 7,902         |
| Gross Profit        | 1994 | 893              | 1,045             | 733              | 827               | 3,498         |
|                     | 1993 | 835              | 959               | 768              | 776               | 3,338         |
| Operating Income    | 1994 | 319              | 397               | 131              | 76                | 923           |
|                     | 1993 | 231              | 326               | 152              | 101               | 810           |
| Net Income          | 1994 | 194              | 258               | 116              | 54                | 622           |
|                     | 1993 | 141              | 200               | 95               | 58                | 494           |
| Earnings per Share  | 1994 | 1.63             | 2.19              | 0.99             | 0.51              | 5.32          |
|                     | 1993 | 1.17             | 1.66              | 0.78             | 0.49              | 4.10          |
| Dividends per Share | 1994 | 0.58             | 0.63              | 0.63             | 0.63              | 2.47          |
|                     | 1993 | 0.56             | 0.58              | 0.58             | 0.58              | 2.30          |
| Common Stock Price  |      |                  |                   |                  |                   |               |
| 1994                | High | 80¾              | 83¾               | 86½              | 80¾               | 86½           |
|                     | Low  | 72¾              | 73¾               | 74½              | 66½               | 66½           |
| 1993                | High | 57¾              | 60¾               | 66¾              | 75                | 75            |
|                     | Low  | 49¾              | 48¾               | 56¾              | 65¾               | 48¾           |

Historically, Monsanto's net income is higher during the first half of the year, primarily because of the concentration of generally more profitable sales of The Agricultural Group during that part of the year.

In the third quarter of 1994, net income included an aftertax gain of \$21 million, or \$0.18 per share, for interest on the amount of the settlement of certain tax matters with the U.S. Internal Revenue Service related to the 1985 acquisition of Searle.

Net income for the fourth quarter of 1994 included an aftertax expense of \$55 million, or \$0.47 per share, for a work force reduction plan approved by the board of directors and for costs to close or exit certain facilities and programs. Also included in the quarter was an after-tax gain of \$33 million, or \$0.28 per share, from the reversal of excess restructuring reserves from prior years.

Net income in the first quarter of 1993 included a \$22 million aftertax gain, or \$0.18 per share, resulting from reimbursement from insurance companies of various costs associated with damage to a manufacturing site of a raw material for Roundup herbicide. Costs associated with the damage had been expensed in 1992, pending resolution of the claim.

The fourth quarter of 1993 included an aftertax expense of \$7 million, or \$0.06 per share, for a restructuring program and other actions approved by the board of directors.

# Financial Summary

| (Dollars in millions, except per share)       | 1994 <sup>(1)</sup> | 1993 <sup>(2)</sup> | 1992 <sup>(3)</sup> | 1991 <sup>(4)</sup> | 1990 <sup>(5)</sup> | 1989 <sup>(6)</sup> |
|-----------------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Operating Results</b>                      |                     |                     |                     |                     |                     |                     |
| Net Sales                                     | \$8,272             | \$7,902             | \$7,763             | \$7,936             | \$8,068             | \$7,829             |
| Operating Income                              | 923                 | 810                 | 58                  | 475                 | 808                 | 1,006               |
| As a Percent of Net Sales                     | 11%                 | 10%                 | 1%                  | 6%                  | 10%                 | 13%                 |
| Income (Loss) from Continuing Operations      | 622                 | 494                 | (126)               | 238                 | 486                 | 627                 |
| As a Percent of Net Sales                     | 8%                  | 6%                  | (2)%                | 3%                  | 6%                  | 8%                  |
| Income from Discontinued Operations           |                     |                     | 578                 | 58                  | 60                  | 52                  |
| Cumulative Effect of Accounting Changes       |                     |                     | (540)               |                     |                     |                     |
| Net Income (Loss)                             | 622                 | 494                 | (88)                | 296                 | 546                 | 679                 |
| Return on Shareowners' Equity                 | 21.4%               | 16.9%               | (2.6)%              | 7.6%                | 13.6%               | 17.6%               |
| <b>Earnings per Share</b>                     |                     |                     |                     |                     |                     |                     |
| Income (Loss) from Continuing Operations      | \$ 5.32             | \$ 4.10             | \$ (1.01)           | \$ 1.87             | \$ 3.77             | \$ 4.63             |
| Net Income (Loss)                             | 5.32                | 4.10                | (0.71)              | 2.33                | 4.23                | 5.01                |
| <b>Year-End Financial Position</b>            |                     |                     |                     |                     |                     |                     |
| Total Assets                                  | \$8,891             | \$8,640             | \$9,085             | \$9,227             | \$9,236             | \$8,604             |
| Working Capital                               | 1,448               | 1,377               | 1,512               | 1,536               | 1,323               | 1,326               |
| Property, Plant and Equipment:                |                     |                     |                     |                     |                     |                     |
| Gross                                         | \$7,555             | \$7,382             | \$7,602             | \$7,510             | \$7,226             | \$6,578             |
| Net                                           | 2,817               | 2,802               | 3,005               | 3,191               | 3,316               | 3,009               |
| Long-Term Debt                                | \$1,405             | \$1,502             | \$1,423             | \$1,871             | \$1,645             | \$1,464             |
| Shareowners' Equity                           | 2,948               | 2,855               | 3,005               | 3,654               | 4,089               | 3,941               |
| Current Ratio                                 | 1.6                 | 1.6                 | 1.6                 | 1.7                 | 1.6                 | 1.7                 |
| Percent of Total Debt to Total Capitalization | 37%                 | 38%                 | 36%                 | 38%                 | 35%                 | 33%                 |
| <b>Other Data</b>                             |                     |                     |                     |                     |                     |                     |
| Property, Plant and Equipment Purchases       | \$ 409              | \$ 437              | \$ 586              | \$ 554              | \$ 711              | \$ 578              |
| Depreciation and Amortization                 | 561                 | 572                 | 765                 | 714                 | 704                 | 659                 |
| Interest Expense                              | 131                 | 129                 | 169                 | 166                 | 176                 | 176                 |
| Research and Development Expenses             | 609                 | 626                 | 651                 | 610                 | 595                 | 581                 |
| Income Taxes                                  | 273                 | 235                 | (48)                | 116                 | 230                 | 327                 |
| Cash Provided by Operations                   | 1,300               | 731                 | 912                 | 1,180               | 1,104               | 1,037               |
| Stock Price:                                  |                     |                     |                     |                     |                     |                     |
| High                                          | \$ 86½              | \$ 75               | \$ 71¼              | \$ 76               | \$ 60½              | \$ 62½              |
| Low                                           | 66½                 | 48¾                 | 49¾                 | 46                  | 38¾                 | 40¼                 |
| Year-End                                      | 70½                 | 73¾                 | 57%                 | 67½                 | 48¼                 | 57¼                 |
| Price/Earnings Ratio on Year-End Stock Price  | 13                  | 18                  | —                   | 29                  | 11                  | 12                  |
| Per Share:                                    |                     |                     |                     |                     |                     |                     |
| Dividends                                     | \$ 2.47             | \$ 2.30             | \$ 2.20             | \$2.045             | \$ 1.88             | \$ 1.65             |
| Shareowners' Equity                           | 26.43               | 24.62               | 24.95               | 29.72               | 32.51               | 29.79               |
| Shareowners (year-end)                        | 53,694              | 56,601              | 60,074              | 60,152              | 62,230              | 61,942              |
| Shares Outstanding (year-end, in millions)    | 112                 | 116                 | 120                 | 123                 | 126                 | 132                 |
| Employees (year-end)                          | 29,354              | 30,019              | 33,797              | 39,281              | 41,081              | 42,179              |

<sup>(1)</sup>Income from continuing operations and net income for 1994 include a net aftertax loss for restructuring expense and other unusual items of \$1 million, or \$0.01 per share.

<sup>(2)</sup>Income from continuing operations and net income for 1993 include a net aftertax gain for restructuring and other unusual items of \$15 million, or \$0.12 per share.

<sup>(3)</sup>Loss from continuing operations and net loss for 1992 include a net aftertax loss for restructuring and other unusual items of \$472 million, or \$3.82 per share.

<sup>(4)</sup>Net income for 1991 includes net restructuring expense of \$325 million, or \$2.54 per share.

<sup>(5)</sup>Net income for 1990 includes \$56 million, or \$0.43 per share, in gains resulting from divestitures, including the divestiture of certain assets of a joint venture in Japan.

<sup>(6)</sup>Net income for 1989 includes a \$36 million, or \$0.27 per share, gain on the sale of the analgesics business.



Monsanto established advisory directors in 1981 to provide counsel to the board of directors on board matters. Currently, seven executive officers serve as advisory directors. They are:

**Robert E. Flynn**, 61, joined Monsanto in 1981. He is chairman and chief executive officer of The NutraSweet Company, a subsidiary of Monsanto. He has also served as chairman and chief executive officer of Monsanto's former Fisher Controls International Inc. subsidiary. Mr. Flynn has been an advisory director for two years.

**Sheldon G. Gilgore, M.D.**, 63, is chairman and chief executive officer of G.D. Searle & Co., a subsidiary of Monsanto. He joined Searle in 1986 as president and chief executive officer, and was named chairman later that year. Dr. Gilgore has been an advisory director for two years. He will retire as chairman and CEO of Searle on April 26, 1995, and will be succeeded by Richard U. De Schutter, the current president and chief operating officer of G.D. Searle & Co.

**Robert B. Hoffman**, 58, is senior vice president and chief financial officer of Monsanto. Mr. Hoffman joined the company and became an advisory director in April 1994. Prior to joining Monsanto, he worked for several companies in finance and international assignments.

**Philip Needleman, Ph.D.**, 56, is senior vice president and chief scientist of Monsanto, and president of research and development of G.D. Searle & Co., a subsidiary of

Monsanto. Dr. Needleman joined Monsanto in 1989 and has been an advisory director for four years.

**Robert G. Potter**, 55, joined Monsanto in 1965 and has held a variety of sales, marketing and administrative positions in Monsanto's chemical businesses, including president of The Chemical Group from 1986 through 1994. Currently, he is an executive vice president of Monsanto. Mr. Potter has been an advisory director for eight years.

**Hendrik A. Verfaillie**, 49, is a vice president of Monsanto and has been an advisory director for two years. Mr. Verfaillie joined Monsanto in 1976 and has served in marketing and administrative assignments in Brussels and St. Louis, including president of The Agricultural Group from 1993 through 1994.

**Virginia V. Weldon, M.D.**, 59, joined Monsanto in 1989. She is senior vice president of public policy and is responsible for public policy trend analysis and communications. Dr. Weldon has been an advisory director for four years.

**Richard W. Duesenberg**, 64, serves as secretary to the board of directors in addition to his responsibilities as senior vice president and general counsel. He joined Monsanto in 1963 and provided legal counsel to several Monsanto businesses prior to being named vice president, general counsel and secretary in 1977. He was appointed to his current position in 1983.

*Ages and years of service as of March 1, 1995.*

Sheldon G. Gilgore, M.D.

Philip Needleman, Ph.D.

Robert B. Hoffman

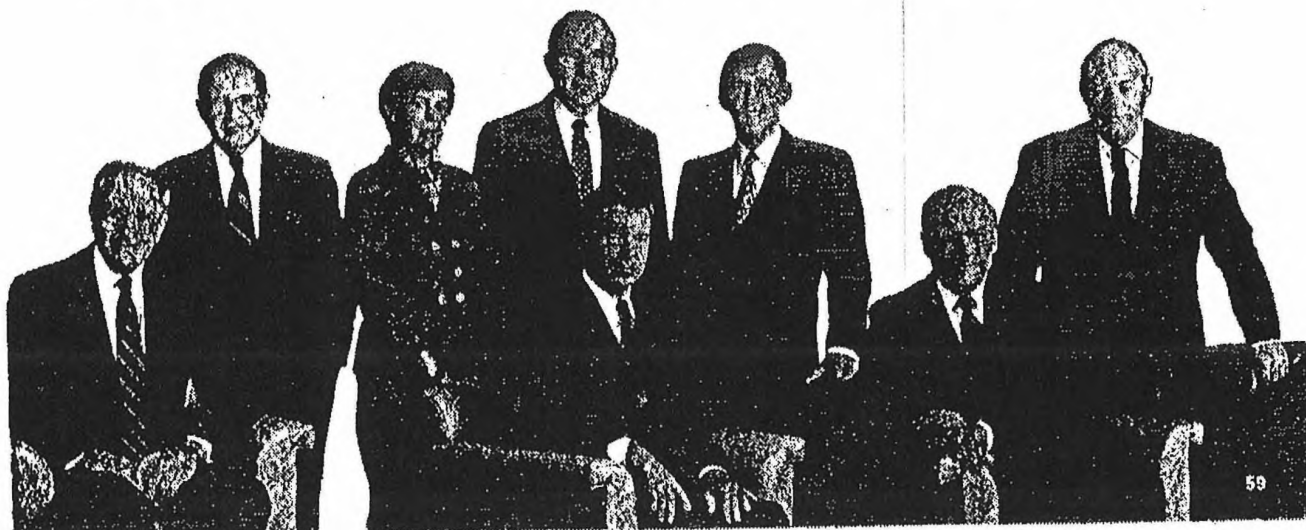
Virginia V. Weldon, M.D.

Hendrik A. Verfaillie

Robert E. Flynn

Robert G. Potter

Richard W. Duesenberg



**Richard J. Mahoney**, 61, of St. Louis, is chairman and chief executive officer of Monsanto. He joined Monsanto in 1962 and was named CEO in 1983 and chairman in 1986. Mr. Mahoney will retire on March 31, 1995, as chairman and CEO, but will continue as a board member. He has been a director for 15 years. Mr. Mahoney chairs the board's executive committee and is a member of the finance committee.

**Joan T. Bok**, 65, of Westborough, Massachusetts, is chairman of the board of New England Electric System, a public utility holding company. She has been a Monsanto director for eight years. Mrs. Bok chairs the board's corporate social responsibility committee and is a member of the audit committee.

**Robert M. Heyssel, M.D.**, 66, of Seaford, Delaware, is a consultant and president emeritus of the Johns Hopkins Health System, a group of not-for-profit medical centers in Baltimore. He is the retired president and chief executive officer of the Johns Hopkins Health System and the Johns Hopkins Hospital. Dr. Heyssel has been a Monsanto director for six years. He chairs the board's pension and savings funds committee and is a member of the audit, nominating and executive compensation and development committees.

**Gwendolyn S. King**, 54, of Philadelphia, is senior vice president, corporate and public affairs for PECO Energy Co., an electric and natural gas provider for the greater

Philadelphia area. She is also the former commissioner of the U.S. Social Security Administration. Mrs. King has been a Monsanto director for one year. She is a member of the board's audit and corporate social responsibility committees.

**Philip Leder, M.D.**, 60, of Boston, is chairman of the Department of Genetics at Harvard Medical School, a medical teaching institution. He is also senior investigator for the Howard Hughes Medical Institute. Dr. Leder has been a Monsanto director for five years. He is a member of the board's executive and pension and savings funds committees.

**Howard M. Love**, 64, of Pittsburgh, is the retired chief executive officer of National Intergroup Inc., a holding company formed to effect a corporate restructuring of National Steel Corp. He has been a Monsanto director for 17 years. Mr. Love chairs the board's executive compensation and development committee, and is a member of the finance and nominating committees.

**Frank A. Metz Jr.**, 61, of Sloatsburg, New York, is a retired senior vice president of finance and planning, and chief financial officer of IBM Corp., an international computer and data processing enterprise. He has been a Monsanto director for five years. Mr. Metz is a member of the board's finance, nominating and executive compensation and development committees.

William D. Ruckelshaus

John B. Slaughter, Ph.D.

Robert B. Shapiro

Nicholas L. Roding

Joan T. Bok

Richard J. Mahoney



**Buck Mickel**, 69, of Greenville, South Carolina, is chairman of the board and chief executive officer of RSI Holdings Inc., a distributor of outdoor equipment and office supplies. He is also the former vice chairman and president of Fluor Corp., a construction firm. Mr. Mickel has been a Monsanto director for 20 years. He chairs the board's audit and nominating committees, and is a member of the executive compensation and development committee.

**Jacobus F.M. Peters**, 63, of Wassenaar, the Netherlands, is the retired chairman of the executive board and chief executive officer of AEGON N.V., an international insurance and financial services company. He has been a Monsanto director for two years. Mr. Peters is a member of the board's pension and savings funds committee.

**Nicholas L. Reding**, 60, of St. Louis, is vice chairman of the board of Monsanto. He has been a director for two years. Mr. Reding joined Monsanto in 1956 and headed the company's agricultural businesses for 14 years. He also has served as an executive vice president of Monsanto, with responsibility for environmental, safety and health, and manufacturing operations.

**John S. Reed**, 56, of New York, is chairman and chief executive officer of Citicorp and Citibank N.A. financial service companies. He has been a Monsanto director for nine years. Mr. Reed chairs the board's finance committee.

**William D. Ruckelshaus**, 62, of Houston, is chairman and chief executive officer of Browning-Ferris Industries Inc., a waste management firm. He is also a former administrator of the U.S. Environmental Protection Agency. Mr. Ruckelshaus has been a Monsanto director for nine years. He is a member of the board's audit and corporate social responsibility committees.

**Robert B. Shapiro**, 56, of St. Louis, is president and chief operating officer of Monsanto. Effective April 1, 1995, he will become chairman and chief executive officer of Monsanto. Mr. Shapiro joined Searle, a subsidiary of Monsanto, in 1979. He also has served as chairman and chief executive officer of The NutraSweet Company, a Monsanto subsidiary, and as the head of Monsanto's agricultural businesses. Mr. Shapiro has been a director for two years. He is a member of the board's pension and savings funds committee.

**John B. Slaughter, Ph.D.**, 60, of Los Angeles, is president of Occidental College, an undergraduate school specializing in the liberal arts and sciences. Before assuming this position, he served as chancellor of the University of Maryland at College Park. He is also a former director of the National Science Foundation. Dr. Slaughter has been a Monsanto director for 11 years. He is a member of the board's audit, executive and corporate social responsibility committees.

*Ages and years of service as of March 1, 1995.*

**Jacobus F.M. Peters**

**Howard M. Love**

**Frank A. Metz Jr.**

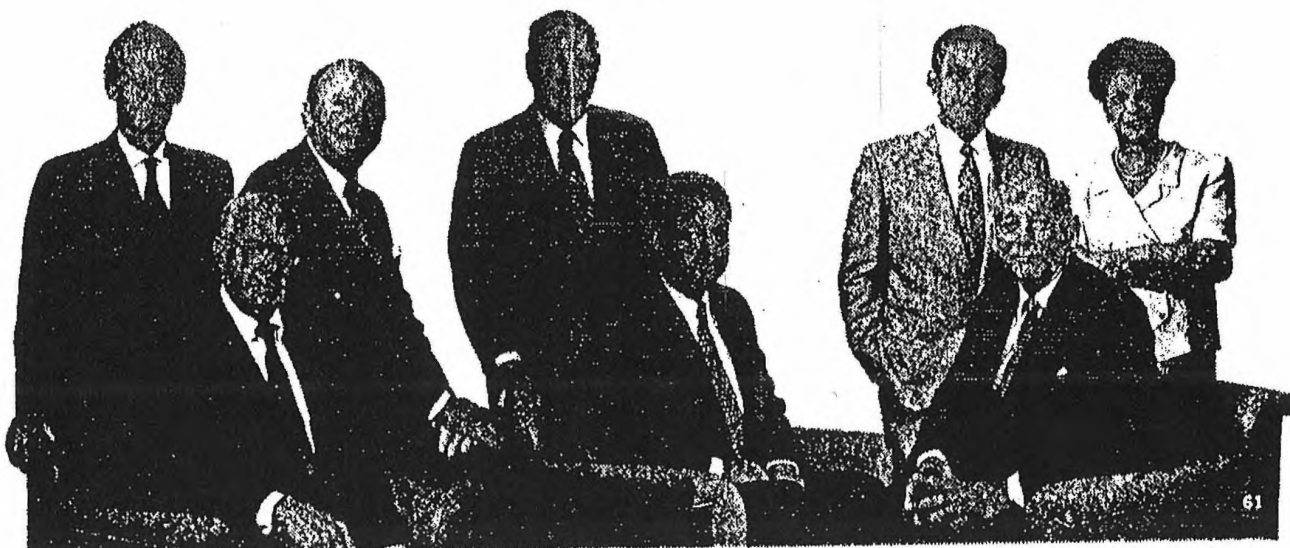
**Philip Loder, M.D.**

**Gwendolyn S. King**

**Robert M. Hynesol, M.D.**

**John S. Reed**

**Buck Mickel**



MONS 354770

Chairman and Chief Executive Officer  
**Richard J. Mahoney**<sup>1,2</sup>

Vice Chairman  
**Nicholas L. Roding**<sup>1</sup>

President and Chief Operating Officer  
**Robert B. Shapiro**<sup>1,3</sup>

Executive Vice President  
**Robert G. Potter**<sup>1</sup>

Senior Vice President and Chief Financial Officer  
**Robert B. Hoffman**<sup>1</sup>

Senior Vice President, General Counsel and Secretary  
**Richard W. Duesenberg**<sup>1</sup>

Senior Vice Presidents  
**Philip Needleman, Ph.D.**<sup>1</sup>  
**Virginia V. Weldon, M.D.**<sup>1</sup>

Vice Presidents  
**Robert A. Clausen**  
**Steven L. Engelberg**<sup>1</sup>  
**A. Nicholas Filippello, Ph.D.**  
**Linda J. Fisher**<sup>1</sup>  
**Pierre Hochmill**<sup>1</sup>  
**Martin J. Kallen**  
**Frank N. Kotsenik, Ph.D.**<sup>1</sup>

**Teresa E. McCaslin**<sup>1</sup>  
**James H. Nisbet**  
**Richard A. Overton**  
**Michael A. Pierle**  
**Robert W. Reynolds**<sup>1</sup>  
**David L. Silney**  
**Hendrik A. Verfaillie**<sup>1</sup>  
**Michael W. Winkel**<sup>1</sup>

Vice President and Controller  
**Bruce R. Sents**

Vice President and Treasurer  
**Juanita H. Hineshaw**

Chairman and Chief Executive Officer  
 The NutraSweet Company  
**Robert E. Flynn**<sup>1</sup>

Chairman and Chief Executive Officer  
 G.D. Searle & Co.

**Sheldon G. Gilgore, M.D.**<sup>1,4</sup>

President and Chief Operating Officer  
 G.D. Searle & Co.

**Richard U. De Schutter**<sup>1,4</sup>

<sup>1</sup> Executive officers as defined by the Securities and Exchange Commission.

<sup>2</sup> On April 1, 1995, Mr. Mahoney will be succeeded by Mr. Shapiro.

<sup>3</sup> Effective April 1, 1995.

<sup>4</sup> On April 26, 1995, Dr. Gilgore will be succeeded by Mr. De Schutter.

## Monsanto Executive Management Committee

Monsanto's Executive Management Committee is responsible for corporate policy and coordination. Members of this committee are:

**Robert B. Shapiro**<sup>1</sup>  
 President and Chief Operating Officer

**Richard U. De Schutter**<sup>1</sup>  
 President and Chief Operating Officer  
 G.D. Searle & Co.

**Richard W. Duesenberg**  
 Senior Vice President, General Counsel and Secretary  
**Steven L. Engelberg**  
 Vice President, Worldwide Government Affairs

**Robert E. Flynn**  
 Chairman and Chief Executive Officer  
 The NutraSweet Company

**Sheldon G. Gilgore, M.D.**<sup>1</sup>  
 Chairman and Chief Executive Officer  
 G.D. Searle & Co.

**Pierre Hochmill**<sup>1</sup>  
 Vice President and President, Growth Enterprises  
 Business Unit

**Robert B. Hoffman**<sup>1</sup>  
 Senior Vice President and Chief Financial Officer

**Teresa E. McCaslin**  
 Vice President, Human Resources

**Philip Needleman, Ph.D.**  
 Senior Vice President and Chief Scientist; and  
 President, Research and Development, G.D. Searle & Co.

**Robert G. Potter**<sup>1</sup>  
 Executive Vice President

**Nicholas L. Roding**<sup>1</sup>  
 Vice Chairman

**Robert W. Reynolds**<sup>1</sup>  
 Vice President, International Operations and  
 Development

**Hendrik A. Verfaillie**<sup>1</sup>  
 Vice President

**Virginia V. Weldon, M.D.**  
 Senior Vice President, Public Policy

<sup>1</sup> These members of the Executive Management Committee are also members of the Monsanto Management Board. This group, chaired by Mr. Shapiro, is responsible for corporate direction, resource allocation and measurement of business performance. Business units, staff functions and world areas report to this board.



**Dividend Policy**

The declaration and payment of quarterly dividends is made at the discretion of Monsanto's board of directors. The dividend is reviewed by the board quarterly. Monsanto has paid quarterly dividends on its common shares without interruption since 1928 and has increased the dividend in each of the past 22 years.

**Dividend Reinvestment Plan**

Registered shareowners (shareowners whose stock certificates state that they are the holders of shares in Monsanto) who are U.S. citizens may reinvest their dividends in common shares of Monsanto. To receive an enrollment form, please call or write:

Shareholder Services  
Monsanto Company  
800 North Lindbergh Boulevard  
St. Louis, Missouri 63167  
U.S.A.  
(314) 694-5432

**Duplicate Mailings**

If you receive duplicate mailings of Monsanto's annual report and would like for us to eliminate the extra copies, please send us your written permission. Duplicate mailings can occur if shares are held in multiple accounts, are registered under different names, or are registered with slight differences in names and addresses. Please send us the labels from the copies you do not want or the names of the accounts. If you have the account numbers, that is also helpful. Please send this information to:

Shareholder Services  
Monsanto Company  
800 North Lindbergh Boulevard  
St. Louis, Missouri 63167  
U.S.A.

**Transfer Agent and Registrar**

The First National Bank of Boston  
Box 644  
Boston, Massachusetts 02102-0644  
U.S.A.



Monsanto is a partner in the Chemical Manufacturers Association Responsible Care® program, the chemical industry's initiative to improve environmental, safety and health performance.

**Additional Information**

Shareowner, financial and other information about Monsanto is available from several sources. These materials include quarterly press releases on earnings; Forms 10-K and 10-Q, which are filed with the Securities and Exchange Commission; and the corporate data book, which provides a detailed analysis of Monsanto's financial results and businesses.

Monsanto's environmental annual review is also available. It explains our progress in meeting our strong commitment to the environment.

There is no charge for any of these materials.

You can obtain this information through the company's automated telephone system by dialing:

(314) 694-5432

You can also request these publications by writing:

Literature Fulfillment  
Monsanto Company — D2000  
800 North Lindbergh Boulevard  
St. Louis, Missouri 63167  
U.S.A.

You can access financial and other information, such as quarterly press releases on earnings and Forms 10-K and 10-Q, through Internet. To connect to Monsanto's World Wide Web page, set your browser software to:

<http://www.monsanto.com>

**Annual Meeting**

The next annual meeting of the shareowners of Monsanto will be held at 1:30 p.m., Friday, April 28, 1995, in K Building at the company's world headquarters at 800 North Lindbergh Boulevard, St. Louis, Missouri. A formal notice of the meeting, together with a proxy statement, is being mailed to each shareowner.

**Stock Symbol — MTC****Principal Stock Exchange — New York**

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# **Monsanto**

800 North Lindbergh Boulevard  
St. Louis, Missouri 63167  
U.S.A.

**It was a year  
to savor for  
a while—and  
then move on!**

— Richard J. Mahoney  
Chairman and Chief Executive Officer

MONS 354773