

MONSANTO CO /NEW/

Form 10-Q

April 06, 2017

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MONSANTO COMPANY SECOND QUARTER 2017 FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended Feb. 28, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-16167

MONSANTO COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization) 43-1878297 (I.R.S. Employer Identification No.)

800 North Lindbergh Blvd.,

St. Louis, MO

(Address of principal executive offices)

(314) 694-1000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 438,807,643 shares of common stock, \$0.01 par value, outstanding as of April 3, 2017.

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

In the interests of our investors, this section of our report explains some of the important reasons that actual results may be materially different from those that we anticipate. In this report, and from time to time throughout the year, we share our expectations for our company's future performance. These forward-looking statements include statements about our business plans; the pending transaction with Bayer Aktiengesellschaft ("Bayer"); the potential development, regulatory approval, and public acceptance of our products; our expected financial performance, including sales performance, and the anticipated effect of our strategic actions; the anticipated benefits of acquisitions; the outcome of contingencies, such as litigation; domestic or international economic, political and market conditions; and other factors that could affect our future results of operations or financial position, including, without limitation, statements under the captions "Overview — Executive Summary — Outlook," "Seeds and Genomics Segment," "Agricultural Productivity Segment," "Financial Condition, Liquidity and Capital Resources," "Outlook," "Critical Accounting Policies and Estimates" and "Legal Proceedings." Any statements we make that are not matters of current reportage or historical fact should be considered forward-looking. Such statements often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate," "will," and similar expressions. By their nature, these types of statements are uncertain and are not guarantees of our future performance.

Since these statements are based on factors that involve risks and uncertainties, our company's actual performance and results may differ materially from those described or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, among others: continued competition in seeds, traits and agricultural chemicals; the company's exposure to various contingencies, including those related to intellectual property protection, regulatory compliance and the speed with which approvals are received, and public understanding and acceptance of our biotechnology and other agricultural products; the success of the company's research and development activities; the outcomes of major lawsuits; developments related to foreign currencies and economies; the impact of exploring, responding to, entering into or consummating potential acquisitions or other transactions and proposals, including risks related to the pending Merger with Bayer; fluctuations in commodity prices; compliance with regulations affecting our manufacturing; the accuracy of the company's estimates related to distribution inventory levels; the increases in and expected higher levels of indebtedness; the company's ability to fund its short-term financing needs and to obtain payment for the products that it sells; the effect of weather conditions, natural disasters, accidents, and security breaches, including cybersecurity incidents, on the agriculture business or the company's facilities; and other risks and factors described or referenced in Part II — Item 1A — Risk Factors — below and Part I — Item 1A of our Report on Form 10-K for the fiscal year ended Aug. 31, 2016.

Our forward-looking statements represent our estimates and expectations and are based on currently available information at the time that we make those statements. However, circumstances change constantly, often unpredictably, and many events beyond our control will determine whether the expectations encompassed in our forward-looking statements will be realized. As a result, investors should not place undue reliance on these forward-looking statements. We disclaim any current intention or obligation to revise or update any forward-looking statements, or the factors that may affect their realization, whether in light of new information, future events or otherwise, and investors should not rely on us to do so.

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MONSANTO COMPANY SECOND QUARTER 2017 FORM 10-Q

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The Statements of Consolidated Operations of Monsanto Company and its consolidated subsidiaries for the three and six months ended Feb. 28, 2017, and Feb. 29, 2016, the Statements of Consolidated Comprehensive Income for the three and six months ended Feb. 28, 2017, and Feb. 29, 2016, the Statements of Consolidated Financial Position as of Feb. 28, 2017, and Aug. 31, 2016, the Statements of Consolidated Cash Flows for the six months ended Feb. 28, 2017, and Feb. 29, 2016, the Statements of Consolidated Shareowners' Equity for the six months ended Feb. 28, 2017, and year ended Aug. 31, 2016, and related Notes to the Consolidated Financial Statements follow. Unless otherwise indicated, "Monsanto" and the "company" are used interchangeably to refer to Monsanto Company or to Monsanto Company and its consolidated subsidiaries, as appropriate to the context. Unless otherwise indicated, "earnings per share" and "per share" mean diluted earnings per share. In the Notes to the Consolidated Financial Statements, all dollars are expressed in millions, except per share amounts. Unless otherwise indicated, trademarks owned or licensed by Monsanto or its subsidiaries are shown in special type. Unless otherwise indicated, references to "Roundup herbicides" mean Roundup branded herbicides, excluding all lawn-and-garden herbicides and other glyphosate-based herbicides, and references to "Roundup and other glyphosate-based herbicides" exclude all lawn-and-garden herbicides.

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## MONSANTO COMPANY SECOND QUARTER 2017 FORM 10-Q

## Statements of Consolidated Operations

| Unaudited<br>(Dollars in millions, except per share amounts)                                | Three Months              |                  | Six Months                |                  |
|---|---------------------------|------------------|---------------------------|------------------|
|   | Ended<br>Feb. 28,<br>2017 | Feb. 29,<br>2016 | Ended<br>Feb. 28,<br>2017 | Feb. 29,<br>2016 |
| Net Sales   | \$5,074                   | \$4,532          | \$7,724                   | \$6,751          |
| Cost of goods sold  | 2,122                     | 1,934            | 3,513                     | 3,252            |
| Gross Profit  | 2,952                     | 2,598            | 4,211                     | 3,499            |
| Operating Expenses:   |                           |                  |                           |                  |
| Selling, general and administrative expenses  | 657                       | 586              | 1,242                     | 1,129            |
| Research and development expenses   | 381                       | 340              | 751                       | 704              |
| Restructuring charges   | 23                        | 9                | (13)                      | 275              |
| Pending Bayer transaction related costs   | 27                        | —                | 120                       | —                |
| Total Operating Expenses  | 1,088                     | 935              | 2,100                     | 2,108            |
| Income from Operations  | 1,864                     | 1,663            | 2,111                     | 1,391            |
| Interest expense  | 102                       | 103              | 238                       | 232              |
| Interest income   | (18)                      | (17)             | (36)                      | (37)             |
| Other (income) expense, net   | (88)                      | 170              | (45)                      | 195              |
| Income from Continuing Operations Before Income Taxes                                       | 1,868                     | 1,407            | 1,954                     | 1,001            |
| Income tax provision  | 505                       | 350              | 566                       | 213              |
| Income from Continuing Operations Including Portion Attributable to Noncontrolling Interest | \$1,363                   | \$1,057          | \$1,388                   | \$788            |
| Discontinued Operations:  |                           |                  |                           |                  |
| Income from operations of discontinued business   | 5                         | 4                | 21                        | 24               |
| Income tax provision  | 2                         | 1                | 8                         | 9                |
| Income from Discontinued Operations   | 3                         | 3                | 13                        | 15               |
| Net Income  | \$1,366                   | \$1,060          | \$1,401                   | \$803            |
| Less: Net (loss) income attributable to noncontrolling interest                             | (2)                       | (3)              | 4                         | (7)              |
| Net Income Attributable to Monsanto Company   | \$1,368                   | \$1,063          | \$1,397                   | \$810            |
| Amounts Attributable to Monsanto Company:   |                           |                  |                           |                  |
| Income from continuing operations   | \$1,365                   | \$1,060          | \$1,384                   | \$795            |
| Income from discontinued operations   | 3                         | 3                | 13                        | 15               |
| Net Income Attributable to Monsanto Company   | \$1,368                   | \$1,063          | \$1,397                   | \$810            |
| Basic Earnings per Share Attributable to Monsanto Company:                                  |                           |                  |                           |                  |
| Income from continuing operations   | \$3.11                    | \$2.42           | \$3.16                    | \$1.78           |
| Income from discontinued operations   | 0.01                      | —                | 0.03                      | 0.03             |
| Net Income Attributable to Monsanto Company   | \$3.12                    | \$2.42           | \$3.19                    | \$1.81           |
| Diluted Earnings per Share Attributable to Monsanto Company:                                |                           |                  |                           |                  |
| Income from continuing operations   | \$3.08                    | \$2.40           | \$3.13                    | \$1.76           |
| Income from discontinued operations   | 0.01                      | 0.01             | 0.03                      | 0.04             |
| Net Income Attributable to Monsanto Company   | \$3.09                    | \$2.41           | \$3.16                    | \$1.80           |
| Weighted Average Shares Outstanding:  |                           |                  |                           |                  |
| Basic   | 438.7                     | 438.6            | 438.4                     | 447.2            |
| Diluted   | 442.3                     | 441.7            | 442.3                     | 451.0            |
| Dividends Declared per Share  | \$1.08                    | \$1.08           | \$1.08                    | \$1.08           |

The accompanying notes are an integral part of these consolidated financial statements.



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## MONSANTO COMPANY SECOND QUARTER 2017 FORM 10-Q

## Statements of Consolidated Comprehensive Income

| Unaudited<br>(Dollars in millions)  | Three Months Ended |               | Six Months Ended |               |
|---|--------------------|---------------|------------------|---------------|
|   | Feb. 28, 2017      | Feb. 29, 2016 | Feb. 28, 2017    | Feb. 29, 2016 |
| Comprehensive Income Attributable to Monsanto Company   |                    |               |                  |               |
| Net Income Attributable to Monsanto Company   | \$1,368            | \$1,063       | \$1,397          | \$810         |
| Other Comprehensive Income (Loss), Net of Tax:  |                    |               |                  |               |
| Foreign currency translation, net of tax of \$(1), \$(2), \$0 and \$(1), respectively               | 171                | (37)          | (98)             | (266)         |
| Postretirement benefit plan activity, net of tax of \$6, \$4, \$12 and \$9, respectively            | 13                 | 6             | 23               | 16            |
| Unrealized net losses on investment holdings, net of tax of \$0, \$0, \$(1) and \$(1), respectively | (1)                | —             | (2)              | (2)           |
| Realized net losses on investment holdings, net of tax of \$1, \$0, \$1 and \$0, respectively       | 1                  | —             | 1                | —             |
| Unrealized net derivative gains (losses), net of tax of \$6, \$(17), \$21 and \$(21), respectively  | 7                  | (31)          | 38               | (31)          |
| Realized net derivative losses, net of tax of \$4, \$21, \$19 and \$26, respectively                | 8                  | 29            | 29               | 33            |
| Total Other Comprehensive Income (Loss), Net of Tax   | 199                | (33)          | (9)              | (250)         |
| Comprehensive Income Attributable to Monsanto Company   | \$1,567            | \$1,030       | \$1,388          | \$560         |
| Comprehensive Income (Loss) Attributable to Noncontrolling Interests                                |                    |               |                  |               |
| Net (Loss) Income Attributable to Noncontrolling Interests  | (2)                | (3)           | 4                | (7)           |
| Other Comprehensive Income (Loss)   |                    |               |                  |               |
| Foreign currency translation  | 1                  | (1)           | —                | (2)           |
| Total Other Comprehensive Income (Loss)   | 1                  | (1)           | —                | (2)           |
| Comprehensive (Loss) Income Attributable to Noncontrolling Interests                                | \$(1)              | \$(4)         | \$4              | \$(9)         |
| Total Comprehensive Income  | \$1,566            | \$1,026       | \$1,392          | \$551         |

The accompanying notes are an integral part of these consolidated financial statements.

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## MONSANTO COMPANY SECOND QUARTER 2017 FORM 10-Q

## Statements of Consolidated Financial Position

| Unaudited<br>(Dollars in millions, except share amounts)   | As of            |                  |
|--|------------------|------------------|
|  | Feb. 28,<br>2017 | Aug. 31,<br>2016 |
| Assets   |                  |                  |
| Current Assets:  |                  |                  |
| Cash and cash equivalents (variable interest entity restricted - 2017: \$18 and 2016: \$122)                                   | \$2,281          | \$1,676          |
| Short-term investments   | 10               | 60               |
| Trade receivables, net (variable interest entity restricted - 2017: \$104 and 2016: \$7)                                       | 2,605            | 1,926            |
| Miscellaneous receivables  | 772              | 755              |
| Inventory, net   | 3,621            | 3,241            |
| Assets held for sale   | 289              | 272              |
| Other current assets   | 304              | 227              |
| Total Current Assets   | 9,882            | 8,157            |
| Total property, plant and equipment  | 11,386           | 11,116           |
| Less accumulated depreciation  | 6,051            | 5,885            |
| Property, Plant and Equipment  | 5,335            | 5,231            |
| Goodwill   | 4,010            | 4,020            |
| Other Intangible Assets, Net   | 1,072            | 1,125            |
| Noncurrent Deferred Tax Assets   | 527              | 613              |
| Long-Term Receivables, Net   | 54               | 101              |
| Other Assets   | 493              | 489              |
| Total Assets   | \$21,373         | \$19,736         |
| Liabilities and Shareowners' Equity  |                  |                  |
| Current Liabilities:   |                  |                  |
| Short-term debt, including current portion of long-term debt (variable interest entity restricted - 2017: \$0 and 2016: \$113) | \$1,611          | \$1,587          |
| Accounts payable   | 785              | 1,006            |
| Income taxes payable   | 307              | 41               |
| Accrued compensation and benefits  | 264              | 239              |
| Accrued marketing programs   | 1,563            | 1,650            |
| Deferred revenue   | 1,407            | 568              |
| Grower production accruals   | 197              | 47               |
| Dividends payable  | 237              | 237              |
| Customer payable   | 47               | 123              |
| Restructuring reserves   | 108              | 227              |
| Miscellaneous short-term accruals  | 763              | 1,004            |
| Total Current Liabilities  | 7,289            | 6,729            |
| Long-Term Debt (variable interest entity restricted - 2017: \$106 and 2016: \$0)   | 7,560            | 7,453            |
| Postretirement Liabilities   | 326              | 371              |
| Long-Term Deferred Revenue   | 27               | 35               |
| Noncurrent Deferred Tax Liabilities  | 73               | 68               |
| Long-Term Portion of Environmental and Litigation Liabilities  | 198              | 200              |
| Long-Term Restructuring Reserves   | 21               | 17               |
| Other Liabilities  | 325              | 318              |
| Shareowners' Equity:   |                  |                  |
| Common stock (authorized: 1,500,000,000 shares, par value \$0.01)  |                  |                  |
| Issued 612,351,385 and 611,435,047 shares, respectively  |                  |                  |



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|  |           |           |
|--|-----------|-----------|
| Outstanding 438,711,182 and 437,795,024 shares, respectively             | 6         | 6         |
| Treasury stock 173,640,203 and 173,640,023 shares, respectively, at cost | (15,053 ) | (15,053 ) |
| Additional contributed capital   | 11,719    | 11,626    |
| Retained earnings  | 11,685    | 10,763    |
| Accumulated other comprehensive loss                                     | (2,817 )  | (2,808 )  |
| Total Monsanto Company Shareowners' Equity                               | 5,540     | 4,534     |
| Noncontrolling Interest  | 14        | 11        |
| Total Shareowners' Equity  | 5,554     | 4,545     |
| Total Liabilities and Shareowners' Equity                                | \$21,373  | \$19,736  |

The accompanying notes are an integral part of these consolidated financial statements.

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## MONSANTO COMPANY SECOND QUARTER 2017 FORM 10-Q

## Statements of Consolidated Cash Flows

| Unaudited<br>(Dollars in millions)  | Six Months<br>Ended<br>Feb. 28, Feb. 29,<br>2017 2016 |         |
|---|---|---------|
| Operating Activities:   |   |         |
| Net Income  | \$1,401   | \$803   |
| Adjustments to reconcile cash provided by operating activities:                       |   |         |
| Items that did not require (provide) cash:  |   |         |
| Depreciation and amortization   | 372   | 364     |
| Bad-debt expense  | 49  | 25      |
| Stock-based compensation expense  | 67  | 69      |
| Excess tax benefits from stock-based compensation                                     | (5)   | (8)     |
| Deferred income taxes   | 54  | (1)     |
| Restructuring impairments   | 20  | 104     |
| Equity affiliate expense, net   | 3   | 3       |
| Net gain on sale of a business or other assets  | (83)  | —       |
| Other items   | 54  | 88      |
| Changes in assets and liabilities that (required) provided cash, net of acquisitions: |   |         |
| Trade receivables, net  | (690)   | (275)   |
| Inventory, net  | (416)   | (384)   |
| Deferred revenue  | 829   | 813     |
| Accounts payable and other accrued liabilities  | 68  | (334)   |
| Restructuring, net  | (111)   | 152     |
| Pension contributions   | (27)  | (13)    |
| Other items, net  | (48)  | (17)    |
| Net Cash Provided by Operating Activities   | 1,537   | 1,389   |
| Cash Flows Provided (Required) by Investing Activities:                               |   |         |
| Maturities of short-term investments  | 50  | 35      |
| Capital expenditures  | (543)   | (489)   |
| Acquisition of businesses, net of cash acquired                                       | (7)   | —       |
| Technology and other investments  | (38)  | (33)    |
| Other investments and property disposal proceeds                                      | 100   | 4       |
| Net Cash Required by Investing Activities   | (438)   | (483)   |
| Cash Flows (Required) Provided by Financing Activities:                               |   |         |
| Net change in financing with less than 90-day maturities                              | (140)   | 203     |
| Short-term debt proceeds  | 18  | 4       |
| Short-term debt reductions  | (11)  | (231)   |
| Long-term debt proceeds   | 600   | 9       |
| Long-term debt reductions   | (510)   | (4)     |
| Debt issuance costs   | (2)   | —       |
| Treasury stock purchases  | —   | (3,001) |
| Stock option exercises  | 37  | 23      |
| Excess tax benefits from stock-based compensation                                     | 5   | 8       |
| Tax withholding on restricted stock and restricted stock units                        | (15)  | (21)    |
| Dividend payments   | (475)   | (491)   |
| Payments to noncontrolling interests  | (1)   | (1)     |
| Net Cash Required by Financing Activities   | (494)   | (3,502) |

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|  |         |          |
|--|---------|----------|
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | —       | (55 )    |
| Net Increase (Decrease) in Cash and Cash Equivalents         | 605     | (2,651 ) |
| Cash and Cash Equivalents at Beginning of Period             | 1,676   | 3,701    |
| Cash and Cash Equivalents at End of Period                   | \$2,281 | \$1,050  |

See Note 17 — Supplemental Cash Flow Information for further details.

The accompanying notes are an integral part of these consolidated financial statements.

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## MONSANTO COMPANY SECOND QUARTER 2017 FORM 10-Q

## Statements of Consolidated Shareowners' Equity

| Unaudited<br>(Dollars in millions, except per share data)  | Monsanto Shareowners |                   |                                      |                      |  |                             | Total   |
|--|----------------------|-------------------|--------------------------------------|----------------------|--|-----------------------------|---------|
|  | Common<br>Stock      | Treasury<br>Stock | Additional<br>Contributed<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>(Loss) <sup>(1)</sup> | Non-Controlling<br>Interest |         |
| Balance as of Aug. 31, 2015                                | \$6                  | \$(12,053)        | \$ 11,464                            | \$ 10,374            | \$ (2,801)   | \$ 15                       | \$7,005 |
| Net Income (Loss)  | —                    | —                 | —                                    | 1,336                | —  | (23)                        | 1,313   |
| Other Comprehensive Loss for 2016                          | —                    | —                 | —                                    | —                    | (7)  | (1)                         | (8)     |
| Treasury Stock Purchases                                   | —                    | (3,000)           | (1)                                  | —                    | —  | —                           | (3,001) |
| Restricted Stock and Restricted Stock Unit Tax Withholding | —                    | —                 | (24)                                 | —                    | —  | —                           | (24)    |
| Issuance of Shares Under Employee Stock Plans              | —                    | —                 | 81                                   | —                    | —  | —                           | 81      |
| Net Excess Tax Benefits from Stock-based Compensation      | —                    | —                 | 11                                   | —                    | —  | —                           | 11      |
| Stock-based Compensation Expense                           | —                    | —                 | 111                                  | —                    | —  | —                           | 111     |
| Cash Dividends of \$2.16 per Common Share                  | —                    | —                 | —                                    | (947)                | —  | —                           | (947)   |
| Acquisition of Noncontrolling Interest                     | —                    | —                 | (16)                                 | —                    | —  | 26                          | 10      |
| Payments to Noncontrolling Interest                        | —                    | —                 | —                                    | —                    | —  | (6)                         | (6)     |
| Balance as of Aug. 31, 2016                                | \$6                  | \$(15,053)        | \$ 11,626                            | \$ 10,763            | \$ (2,808)   | \$ 11                       | \$4,545 |
| Net Income   | —                    | —                 | —                                    | 1,397                | —  | 4                           | 1,401   |
| Other Comprehensive Loss for 2017                          | —                    | —                 | —                                    | —                    | (9)  | —                           | (9)     |
| Restricted Stock and Restricted Stock Unit Tax Withholding | —                    | —                 | (15)                                 | —                    | —  | —                           | (15)    |
| Issuance of Shares Under Employee Stock Plans              | —                    | —                 | 36                                   | —                    | —  | —                           | 36      |
| Net Excess Tax Benefits from Stock-based Compensation      | —                    | —                 | 5                                    | —                    | —  | —                           | 5       |
| Stock-based Compensation Expense                           | —                    | —                 | 67                                   | —                    | —  | —                           | 67      |
| Cash Dividends of \$1.08 per Common Share                  | —                    | —                 | —                                    | (475)                | —  | —                           | (475)   |
| Payments to Noncontrolling Interest                        | —                    | —                 | —                                    | —                    | —  | (1)                         | (1)     |
| Balance as of Feb. 28, 2017                                | \$6                  | \$(15,053)        | \$ 11,719                            | \$ 11,685            | \$ (2,817)   | \$ 14                       | \$5,554 |

(1) See Note 15 — Accumulated Other Comprehensive Loss — for further details of the components of accumulated other comprehensive loss.

The accompanying notes are an integral part of these consolidated financial statements.

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MONSANTO COMPANY SECOND QUARTER 2017 FORM 10-Q  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS –  
UNAUDITED

NOTE 1. BACKGROUND AND BASIS OF PRESENTATION

Monsanto Company, along with its subsidiaries, is a leading global provider of agricultural products for farmers. Monsanto's seeds, biotechnology trait products, herbicides and digital agriculture products provide farmers with solutions that help improve productivity, reduce the costs of farming and produce better food for consumers and better feed for animals.

Monsanto manages its business in two reportable segments: Seeds and Genomics and Agricultural Productivity. Through the Seeds and Genomics segment, Monsanto produces leading seed brands, including DEKALB, Asgrow, Deltapine, Seminis and De Ruiter, and Monsanto develops biotechnology traits that assist farmers in controlling insects and weeds and digital agriculture products to assist farmers in decision making. Monsanto also provides other seed companies with genetic material and biotechnology traits for their seed brands. Through the Agricultural Productivity segment, the company manufactures Roundup and Harness brand herbicides and other herbicides. See Note 19 — Segment Information — for further details.

In the fourth quarter of 2008, the company announced plans to divest its animal agricultural products business, which focused on dairy cow productivity and was previously reported as part of the Agricultural Productivity segment. This transaction was consummated on Oct. 1, 2008, and included a 10-year earn-out with potential annual payments being earned by Monsanto if certain revenue levels are exceeded. As a result, financial data for this business has been presented as discontinued operations.

On Nov. 2, 2015, the company signed a definitive agreement with Deere & Company ("Deere") to sell the Precision Planting equipment business which is included in the Seed and Genomics segment for approximately \$190 million in cash, subject to customary working capital adjustments. As of Feb. 28, 2017, and Aug. 31, 2016, Monsanto had \$183 million and \$172 million of assets held for sale, respectively, and \$11 million and \$12 million of liabilities held for sale classified within miscellaneous short-term accruals, respectively, on the Statements of Consolidated Financial Position related to this transaction. The assets were primarily related to inventory, net; trade receivables, net; property, plant, and equipment, net; goodwill; and other intangible assets, net, and the liabilities were primarily related to accrued marketing programs and accounts payable. In August 2016, the U.S. Department of Justice filed a lawsuit to block Deere's acquisition of the Precision Planting equipment business, which Deere is contesting. As a result of this development, the closing date for this transaction is uncertain.

In the second quarter of fiscal year 2017, the company divested its European-based silthiofam seed-treatment chemical business previously reported as part of the Agricultural Productivity segment for approximately \$140 million in cash, subject to customary working capital adjustments. Approximately \$85 million, less the carrying amount of assets sold of approximately \$2 million, was recognized within other (income) expense, net in the Statements of Consolidated Operations for the three and six months ended Feb. 28, 2017. The recognition of the remaining \$55 million is contingent on silthiofam re-registration within the European Union.

The accompanying consolidated financial statements have not been audited but have been prepared in conformity with accounting principles generally accepted in the United States for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, these unaudited consolidated financial statements contain all necessary adjustments which are normal and recurring to present fairly the financial position, results of operations and cash flows for the interim periods reported. This Report on Form 10-Q should be read in conjunction with Monsanto's Report on Form 10-K for the fiscal year ended Aug. 31, 2016. Financial information for the second quarter and first six months of fiscal year 2017 should not be annualized because of the seasonality of the company's business.

NOTE 2. NEW ACCOUNTING STANDARDS

In February 2017, the Financial Accounting Standards Board (“FASB”) issued accounting guidance, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost” which requires the disaggregation of the service cost component from other components of net periodic benefit cost, clarifies how to present the service cost component and other components of net benefit costs in the Statements of Consolidated Operations and allows only the service cost component of net benefit costs to be eligible for capitalization. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2017, with early adoption permitted as of the beginning of a fiscal year for which interim or annual statements have not been issued. Adoption will be applied on a retrospective basis for the presentation of all components of net periodic benefit costs and on a prospective basis for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. Accordingly, Monsanto is required to adopt this standard in the first quarter of fiscal year 2019. The company is currently evaluating the impact this guidance will have on the consolidated financial statements and related disclosures.

In February 2017, the FASB issued accounting guidance, “Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sale of Nonfinancial Assets” which clarifies the scope of transactions that are accounted for in accordance with the Other Income topic of the Accounting Standards Codification (“ASC”) as well when these assets would be

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derecognized. The Other Income topic of the ASC applies to a sale or transfer to a non-customer of nonfinancial assets or financial assets in a contract with substantially all of the fair value concentrated in nonfinancial assets. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2017, with an early adoption of one-year permitted. This guidance is required to be adopted at the same time “Revenue from Contracts with Customers” is adopted. Entities have the option to apply the new guidance under a retrospective approach to each prior reporting period presented or a modified retrospective approach with the cumulative effect of initially applying the new guidance recognized at the date of initial application within the Statement of Consolidated Financial Position. The method of adoption elected may be different than the method of adoption for “Revenue from Contracts with Customers.” Monsanto is required to adopt this standard in the first quarter of fiscal year 2019. The company is currently evaluating the impact this guidance will have on the consolidated financial statements and related disclosures.

In January 2017, the FASB issued accounting guidance, “Simplifying the Test for Goodwill Impairment” which would eliminate the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, the amount of an impairment charge would be recognized if the carrying amount of a reporting unit is greater than its fair value. This standard is effective for annual or any interim goodwill impairments tests in fiscal years beginning after Dec. 15, 2019, with early adoption permitted. Adoption will be applied on a prospective basis. Monsanto is required to adopt this standard in the first quarter of fiscal year 2021. The company is currently evaluating the impact this guidance will have on the consolidated financial statements and related disclosures.

In January 2017, the FASB issued accounting guidance, “Clarifying the Definition of a Business” which requires an evaluation of whether substantially all fair value of the assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the set of transferred assets and activities is not a business. The guidance also requires a business to include at least one substantive process. Transactions that meet the definition of a business are expected to decrease as a result of the adoption of this guidance. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2017, with early adoption permitted. Adoption will be applied on a prospective basis. Monsanto is required to adopt this standard in the first quarter of fiscal year 2019. The company is currently evaluating the impact this guidance will have on the consolidated financial statements and related disclosures.

In November 2016, the FASB issued accounting guidance, “Statement of Cash Flows: Restricted Cash” which requires restricted cash and restricted cash equivalents to be classified in the Statements of Cash Flows as cash and cash equivalents. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2017, with early adoption permitted. Adoption will be applied on a retrospective basis to all periods presented. Monsanto is required to adopt this standard in the first quarter of fiscal year 2019. The company is currently evaluating the impact this guidance will have on the consolidated financial statements and related disclosures.

In October 2016, the FASB issued accounting guidance, “Income Taxes: Intra-Entity Transfers of Assets Other than Inventory” which will require the recognition of income tax effects of intra-entity transfers of assets other than inventory to be recognized when the transfer occurs. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2017, with early adoption permitted as of the beginning of an annual period. Adoption will be applied on a modified retrospective basis. Monsanto is required to adopt the standard in the first quarter of fiscal year 2019. The company is currently evaluating the impact this guidance will have on the

consolidated financial statements and related disclosures.

In August 2016, the FASB issued accounting guidance, “Classification of Certain Cash Receipts and Cash Payments” which clarifies the classification of the activity in the Statements of Consolidated Cash Flows and how the predominant principle should be applied when cash receipts and cash payments have more than one class of cash flows. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2017, with early adoption permitted. Adoption will be applied retrospectively. Monsanto is required to adopt the standard in the first quarter of fiscal year 2019. The company is currently evaluating the impact this guidance will have on the consolidated financial statements and related disclosures.

In June 2016, the FASB issued accounting guidance, “Measurement of Credit Losses on Financial Instruments” which replaces the incurred loss methodology to record credit losses with a methodology that reflects the expected credit losses for financial assets not accounted for at fair value with gains and losses recognized through net income. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2019, with early adoption permitted for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2018. This standard will be adopted on a modified retrospective basis. Monsanto is required to adopt this standard in the first quarter of fiscal year 2021, with early adoption



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permitted in the first quarter of fiscal year 2020. The company is currently evaluating the impact this guidance will have on the consolidated financial statements and related disclosures.

In March 2016, the FASB issued accounting guidance, “Improvements to Employee Share-Based Payment Accounting” which will simplify the income tax consequences, accounting for forfeitures and classification on the Statements of Consolidated Cash Flows. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2016, with early adoption permitted. Monsanto is required to adopt the standard in the first quarter of fiscal year 2018. The company is currently evaluating the impact this guidance will have on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued accounting guidance, “Leases” which will supersede the existing lease guidance and will require all leases with a term greater than 12 months to be recognized in the Statements of Financial Position and eliminate current real estate-specific lease guidance, while maintaining substantially similar classification criteria for distinguishing between finance leases and operating leases. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2018, with early adoption permitted. This standard will be adopted on a modified retrospective basis. Monsanto is required to adopt the standard in the first quarter of fiscal year 2020. The company is currently evaluating the impact this guidance will have on the consolidated financial statements and related disclosures.

In January 2016, the FASB issued accounting guidance, “Recognition and Measurement of Financial Assets and Financial Liabilities” which would require equity investments not accounted for as an equity method investment or that result in consolidation to be recorded at their fair value with changes in fair value recognized in the Statements of Consolidated Operations. Those equity investments that do not have a readily determinable fair value may be measured at cost less impairment, if any, plus or minus changes resulting from observable price changes. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2017, with early adoption prohibited. Monsanto is required to adopt the standard in the first quarter of fiscal year 2019. The company is currently evaluating the impact this guidance will have on the consolidated financial statements and related disclosures.

In February 2015, the FASB issued accounting guidance, “Amendments to the Consolidation Analysis” which changes the guidance with respect to the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The new guidance affects the following areas: (1) limited partnerships and similar legal entities, (2) evaluating fees paid to a decision maker or a service provider as a variable interest, (3) the effect of fee arrangements on the primary beneficiary determination, (4) the effect of related parties on the primary beneficiary determination and (5) certain investment funds. This standard is effective for fiscal years, and for interim periods within those fiscal years, beginning after Dec. 15, 2015. Accordingly, Monsanto adopted this standard in the first quarter of fiscal year 2017. The adoption of this guidance did not have an impact on the consolidated financial statements or related disclosures.

In May 2014, the FASB issued accounting guidance, “Revenue from Contracts with Customers” which has been further clarified and amended. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and clarify guidance for multiple-element arrangements. Entities

have the option to apply the new guidance under a retrospective approach to each prior reporting period presented or a modified retrospective approach with the cumulative effect of initially applying the new guidance recognized at the date of initial application within the Statement of Consolidated Financial Position. In August 2015, the FASB amended the guidance to allow for the deferral of the effective date of this standard. The standard is effective for fiscal years, and interim periods within those years, beginning after Dec. 15, 2017. Accordingly, Monsanto is required to adopt this standard in the first quarter of fiscal year 2019. One-year early adoption is permitted. The initial analysis identifying areas that will be impacted by the new guidance is substantially complete, and the company is currently analyzing the potential impacts to the consolidated financial statements and related disclosures. The company believes the most significant impact relates to its accounting for biotechnology trait license revenue with fixed payments. Revenue from seed sales, agricultural chemical products and biotechnology trait licenses recognized as third-party seed companies sell seed is expected to remain substantially unchanged. Specifically, under the new standard, revenue for biotechnology trait license with fixed payments are expected to be recognized upon commencement of the license term rather than over the contract period. Due to complexities of certain biotechnology trait license agreements, the actual revenue recognition treatment under the standard will be dependent upon contract-specific terms and may vary in some instances from recognition upon commencement of the license term. The company has not made a decision on the method of adoption.

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## NOTE 3. RESTRUCTURING

Restructuring charges were recorded in the Statements of Consolidated Operations as follows:

|   | Three<br>Months<br>Ended |                     | Six Months<br>Ended |                     |
|---|--------------------------|---------------------|---------------------|---------------------|
|   | Feb.<br>28,<br>2017      | Feb.<br>29,<br>2016 | Feb.<br>28,<br>2017 | Feb.<br>29,<br>2016 |
| (Dollars in millions)                                 |                          |                     |                     |                     |
| Cost of Goods Sold <sup>(1)</sup>                     | \$ (6 )                  | \$ —                | \$ (7 )             | \$ (52 )            |
| Restructuring Charges <sup>(2)</sup>                  | (23 )                    | (9 )                | 13                  | (275 )              |
| Income from Continuing Operations Before Income Taxes | \$ (29)                  | \$ (9 )             | \$ 6                | \$ (327)            |
| Income Tax Provision                                  | 15                       | 3                   | 5                   | 111                 |
| Net Income  | \$ (14)                  | \$ (6 )             | \$ 11               | \$ (216)            |

(1) For the three months ended Feb. 28, 2017, \$6 million of restructuring charges in cost of goods sold was split by segment as follows: \$5 million in Seeds and Genomics and \$1 million in Agricultural Productivity. For the six months ended Feb. 28, 2017, \$7 million of restructuring charges in cost of goods sold was split by segment as follows: \$6 million in Seeds and Genomics and \$1 million in Agricultural Productivity. For the six months ended Feb. 29, 2016, \$52 million of restructuring charges in cost of goods sold was recorded to the Seeds and Genomics segment.

(2) For the three months ended Feb. 28, 2017, \$23 million of restructuring charges was split by segment as follows: \$22 million in Seeds and Genomics and \$1 million in Agricultural Productivity. For the three months ended Feb. 29, 2016, \$9 million of restructuring charges was recorded to the Seeds and Genomics segment. For the six months ended Feb. 28, 2017, the net reversal of previously recognized expense of \$13 million was split by segment as follows: \$12 million in Seeds and Genomics and \$1 million in Agricultural Productivity. For the six months ended Feb. 29, 2016, \$275 million of restructuring charges was split by segment as follows: \$246 million in Seeds and Genomics and \$29 million in Agricultural Productivity.

On Oct. 6, 2015, the company approved actions to realign resources to increase productivity, enhance competitiveness by delivering cost improvements and support long-term growth. On Jan. 5, 2016, the company approved additional actions which, together with the Oct. 6, 2015 actions, comprise the 2015 Restructuring Plan. Actions include streamlining and reprioritizing some commercial, enabling, supply chain and research and development efforts. Cumulative pretax charges related to the 2015 Restructuring Plan are estimated to be approximately \$1 billion. Implementation of the 2015 Restructuring Plan is expected to be completed by the end of fiscal year 2018, and substantially all of the cash payments are expected to be made by the end of fiscal year 2018. These pretax charges are currently estimated to be comprised of the following categories: \$375 million to \$400 million in work force reductions, including severance and related benefits; \$120 million to \$140 million in facility closures/exit costs, including contract termination costs; \$480 million to \$515 million in asset impairments and write-offs related to property, plant and equipment, inventory and goodwill and other assets. These pretax charges are currently estimated to be incurred primarily by the Seeds and Genomics segment.

The following tables display the pretax charges incurred by segment under the 2015 Restructuring Plan.

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| (Dollars in millions)             | Three months ended<br>Feb. 28, 2017 |                          |       | Three months ended<br>Feb. 29, 2016 |                          |       |
|-----------------------------------|-------------------------------------|--------------------------|-------|-------------------------------------|--------------------------|-------|
|                                   | Seeds<br>Genetics                   | Agricultural<br>Products | Total | Seeds<br>Genetics                   | Agricultural<br>Products | Total |
| Work Force Reductions             | \$2                                 | \$ —                     | \$2   | \$ —                                | \$ —                     | \$ —  |
| Facility Closures/Exit Costs      | 8                                   | 1                        | 9     | 4                                   | —                        | 4     |
| Asset Impairments and Write-offs: |                                     |                          |       |                                     |                          |       |
| Property, plant and equipment     | 18                                  | 1                        | 19    | 5                                   | —                        | 5     |
| Inventory                         | (1)                                 | —                        | (1)   | —                                   | —                        | —     |
| Goodwill and other assets         | —                                   | —                        | —     | —                                   | —                        | —     |
| Total Restructuring Charges, Net  | \$27                                | \$ 2                     | \$29  | \$ 9                                | \$ —                     | —\$ 9 |

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| (Dollars in millions)             | Six months ended Feb. 28, 2017 |                       |        | Six months ended Feb. 29, 2016 |                       |       | Cumulative Amount through Feb. 28, 2017 |                       |       |
|-----------------------------------|--------------------------------|-----------------------|--------|--------------------------------|-----------------------|-------|---|-----------------------|-------|
|                                   | Seeds and Genomics             | Agricultural Products | Total  | Seeds and Genomics             | Agricultural Products | Total | Seeds and Genomics                      | Agricultural Products | Total |
| Work Force Reductions             | \$(34)                         | \$ (2 )               | \$(36) | \$208                          | \$ 9                  | \$217 | \$349                                   | \$ 21                 | \$370 |
| Facility Closures/Exit Costs      | 10                             | 1                     | 11     | 6                              | —                     | 6     | 33                                      | 6                     | 39    |
| Asset Impairments and Write-offs: |                                |                       |        |                                |                       |       |   |                       |       |
| Property, plant and equipment     | 19                             | 1                     | 20     | 29                             | —                     | 29    | 141                                     | 3                     | 144   |
| Inventory                         | —                              | —                     | —      | 37                             | —                     | 37    | 93                                      | —                     | 93    |
| Goodwill and other assets         | (1 )                           | —                     | (1 )   | 18                             | 20                    | 38    | 185                                     | 20                    | 205   |
| Total Restructuring Charges, Net  | \$(6 )                         | \$ —                  | \$(6 ) | \$298                          | \$ 29                 | \$327 | \$801                                   | \$ 50                 | \$851 |

The company's written human resource policies are indicative of an ongoing benefit arrangement with respect to severance packages. Benefits paid pursuant to an ongoing benefit arrangement are specifically excluded from the Exit or Disposal Cost Obligations topic of the ASC; therefore, severance charges incurred in connection with the 2015 Restructuring Plan are accounted for when probable and estimable as required under the Compensation - Nonretirement Postemployment Benefits topic of the ASC. In addition, when the decision to commit to a restructuring plan requires a long-lived asset and finite-lived intangible asset impairment review, Monsanto evaluates such impairment issues under the Property, Plant and Equipment topic of the ASC.

The three and six months ended Feb. 28, 2017, include the reversal of \$12 million and \$57 million, respectively, of previously recognized expense due to changes in estimates related to work force reductions.

The following table summarizes the activities related to the company's 2015 Restructuring Plan.

| (Dollars in millions)  | Work Force Reductions <sup>(1)</sup> | Facility Closures/Exit Costs <sup>(2)</sup> | Asset Impairments and Write-offs | Total  |
|--|--------------------------------------|---|----------------------------------|--------|
| Balance as of Aug. 31, 2015  | \$ 217                               | \$ —  | \$ —                             | \$217  |
| Net restructuring charges recognized in fiscal year 2016                     | 189                                  | 28  | 147                              | 364    |
| Cash payments  | (164 )                               | (28 )                                       | —                                | (192 ) |
| Asset impairments and write-offs   | —                                    | —   | (147 )                           | (147 ) |
| Foreign currency impact  | 2                                    | —   | —                                | 2      |
| Balance as of Aug. 31, 2016  | \$ 244                               | \$ —  | \$ —                             | \$244  |
| Net restructuring charges recognized in first six months of fiscal year 2017 | (36 )                                | 11  | 19                               | (6 )   |
| Cash payments  | (78 )                                | (8 )  | —                                | (86 )  |
| Asset impairments and write-offs   | —                                    | —   | (19 )                            | (19 )  |
| Foreign currency impact  | (4 )                                 | —   | —                                | (4 )   |
| Balance as of Feb. 28, 2017  | \$ 126                               | \$ 3  | \$ —                             | \$129  |

The restructuring liability balance included \$20 million and \$17 million that were recorded in long-term (1)restructuring reserves in the Statements of Consolidated Financial Position as of Feb. 28, 2017, and Aug. 31, 2016, respectively.

(2) The restructuring liability balance included \$1 million that was recorded in long-term restructuring reserves in the Statement of Consolidated Financial Position as of Feb. 28, 2017.

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## NOTE 4. CUSTOMER FINANCING PROGRAMS

Monsanto participates in customer financing programs as follows:

| (Dollars in millions)   | As of            | Feb. 28,   | Aug. 31, |
|---|------------------|------------|----------|
|   | 2017             | 2017       | 2016     |
| Transactions that Qualify for Sales Treatment   |                  |            |          |
| U.S. agreement to sell trade receivables <sup>(1)</sup>   |                  |            |          |
| Outstanding balance   | \$43             | \$511      |          |
| Maximum future payout under recourse provisions   | 5                | 19         |          |
| European and Latin American agreements to sell trade receivables <sup>(2)</sup>                 |                  |            |          |
| Outstanding balance   | \$9              | \$60       |          |
| Maximum future payout under recourse provisions   | 2                | 35         |          |
| Agreements with Lenders <sup>(3)</sup>  |                  |            |          |
| Outstanding balance   | \$120            | \$73       |          |
| Maximum future payout under the guarantee   | 90               | 57         |          |
| The gross amounts of receivables sold under transactions that qualify for sales treatment were: |                  |            |          |
|   | Gross Amounts of |            |          |
|   | Receivables Sold |            |          |
|   | Three Months     | Six Months |          |
|   | Ended            | Ended      |          |
|   | Feb. 29,         | Feb. 28,   | Feb. 29, |
| (Dollars in millions)   | 2017             | 2017       | 2016     |
| Transactions that Qualify for Sales Treatment   |                  |            |          |
| U.S. agreement to sell trade receivables <sup>(1)</sup>   | \$–              | \$115      | \$16     |
| European and Latin American agreements to sell trade receivables <sup>(2)</sup>                 | 5                | 11         | 32       |

Monsanto has agreements in the United States to sell trade receivables, both with and without recourse, up to a maximum outstanding balance of \$1.5 billion and to service such accounts. These receivables qualify for sales treatment under the Transfers and Servicing topic of the ASC and, accordingly, the proceeds are included in net cash provided by operating activities in the Statements of Consolidated Cash Flows. The liability for the guarantees for sales with recourse is recorded at an amount that approximates fair value, based upon the company's historical collection experience and a current assessment of credit exposure.

(1) Monsanto has various agreements in European and Latin American countries to sell trade receivables, both with and without recourse. These receivables qualify for sales treatment under the Transfers and Servicing topic of the ASC and, accordingly, the proceeds are included in net cash provided by operating activities in the Statements of Consolidated Cash Flows. The liability for the guarantees for sales with recourse is recorded at an amount that approximates fair value, based upon the company's historical collection experience and a current assessment of credit exposure.

(2)

Monsanto has additional agreements with lenders to establish programs that provide financing for select customers in the United States, Latin America and Europe. Monsanto provides various levels of recourse through guarantees of the accounts in the event of customer default. The term of the guarantee is equivalent to the term of the customer (3) loans. The liability for the guarantees is recorded at an amount that approximates fair value, based on the company's historical collection experience with customers that participate in the program and a current assessment of credit exposure. If performance is required under the guarantee, Monsanto may retain amounts that are subsequently collected from customers.

In addition to the arrangements in the above table, Monsanto also participates in a financing program in Brazil that allows Monsanto to transfer up to 350 million Brazilian reais (approximately \$113 million as of Feb. 28, 2017) for select customers in Brazil to a revolving financing program. Under the arrangement, a recourse provision requires Monsanto to cover the first credit losses within the program up to the amount of the company's investment. Credit losses above Monsanto's investment would be covered by senior interests in the entity by a reduction in the fair value of their mandatorily redeemable shares. The company evaluated its relationship with the entity under the guidance within the Consolidation topic of the ASC, and as a result, the entity has been consolidated. For further information on this topic, see Note 5 — Variable Interest Entities and Investments.

There were no significant recourse or non-recourse liabilities for all programs as of Feb. 28, 2017, and Aug. 31, 2016. There were no significant delinquent loans for all programs as of Feb. 28, 2017, and Aug. 31, 2016.



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## NOTE 5. VARIABLE INTEREST ENTITIES AND INVESTMENTS

## Variable Interest Entities

On Oct. 19, 2016, Monsanto exited a financing program in Brazil that was recorded as a consolidated variable interest entity (“VIE”). On Nov. 4, 2016, Monsanto entered into a new financing program in Brazil that is recorded as a consolidated VIE. For the most part, the new and previous arrangements of the Brazil VIE consist of a revolving financing program that is funded by investments from the company and other third parties, primarily investment funds, and has been established to service Monsanto’s customer receivables. Under the new arrangement, third parties, primarily investment funds, hold senior interests of 88 percent, and Monsanto holds the remaining 12 percent in the entity as of Feb. 28, 2017. Under the previous arrangement, as of Aug. 31, 2016, third parties, primarily investment funds, held senior interest of 89 percent, and Monsanto held the remaining 11 percent interest. Under the new arrangement, the senior interests held by third parties are mandatorily redeemable shares and are included in long-term debt in the Statement of Consolidated Financial Position as of Feb. 28, 2017. Under the previous arrangement, the senior interests held by third parties were mandatorily redeemable shares and were included in short-term debt in the Statement of Consolidated Financial Position as of Aug. 31, 2016.

Under the new arrangement, Monsanto is required to maintain an investment in the Brazil VIE of at least 11.1 percent and could be required to provide additional contributions to the Brazil VIE. Monsanto currently has no unfunded commitments to the Brazil VIE. Creditors have no recourse against Monsanto in the event of default by the Brazil VIE. The company’s financial or other support provided to the Brazil VIE is limited to its investment. Even though Monsanto holds a subordinate interest in the Brazil VIE, the Brazil VIE was established to service transactions involving the company, and the company determines the receivables that are included in the revolving financing program. Therefore, the determination is that Monsanto has the power to direct the activities most significant to the economic performance of the Brazil VIE. As a result, the company is the primary beneficiary of the Brazil VIE, and the Brazil VIE has been consolidated in Monsanto’s consolidated financial statements. The assets of the Brazil VIE may only be used to settle the obligations of the respective entity. Third-party investors in the Brazil VIE do not have recourse to the general assets of Monsanto. See Note 4 — Customer Financing Programs and Note 11 — Fair Value Measurements— for additional information.

Monsanto has entered into an agreement with a third party to establish an entity to focus on research and development (“R&D”) related to agricultural fungicides for agricultural applications. This entity is recorded as a consolidated VIE of Monsanto. Under the arrangement, Monsanto holds a call option to acquire the majority of the equity interests in the R&D VIE from the third-party owner. Monsanto funds the operations of the R&D VIE in return for additional equity interests or to retain the call options. The funding is provided in separate research phases if research milestones are met. The R&D VIE was established to perform agricultural-based R&D activities for the benefit of Monsanto, and Monsanto provides all funding of the R&D VIE’s activities. Further, Monsanto has the power to direct the activities most significant to the R&D VIE. As a result, Monsanto is the primary beneficiary of the R&D VIE, and the R&D VIE is consolidated in Monsanto’s consolidated financial statements. The third-party owner of the R&D VIE do not have recourse to the general assets of Monsanto beyond Monsanto’s maximum exposure to loss at any given time relating to the R&D VIE.

## Equity Method and Cost Basis Investments

Monsanto has equity method and cost basis investments recorded in other assets in the Statements of Consolidated Financial Position. Due to the nature of the cost basis investments, the fair market value is not readily determinable.

These investments are reviewed for impairment indicators on a quarterly basis.

For such investments that were accounted for under the equity method and cost basis included in other assets in the Statements of Consolidated Financial Position, the amounts are summarized in the following table:

|                           | As of         |               |
|---------------------------|---------------|---------------|
| (Dollars in millions)     | Feb. 28, 2017 | Aug. 31, 2016 |
| Equity Method Investments | \$ 148        | \$ 152        |
| Cost Basis Investments    | 99            | 94            |
| Total                     | \$ 247        | \$ 246        |

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## NOTE 6. RECEIVABLES

Trade receivables in the Statements of Consolidated Financial Position are net of allowances of \$101 million and \$94 million as of Feb. 28, 2017, and Aug. 31, 2016, respectively.

The company has long-term customer financing receivables that relate to past due accounts which are not expected to be collected within the current year. The long-term customer receivables were \$299 million and \$260 million with a corresponding allowance for credit losses on these receivables of \$245 million and \$228 million as of Feb. 28, 2017, and Aug. 31, 2016, respectively. These long-term customer receivable balances and the corresponding allowance are included in long-term receivables, net in the Statements of Consolidated Financial Position. For these long-term customer receivables, interest is no longer accrued when the receivable is determined to be delinquent and classified as long-term based on estimated timing of collection.

The following table displays a roll forward of the allowance for credit losses related to long-term customer receivables.

(Dollars in millions)

|                             |        |
|-----------------------------|--------|
| Balance as of Aug. 31, 2015 | \$ 120 |
| Incremental Provision       | 78     |
| Recoveries                  | (2 )   |
| Write-offs                  | (4 )   |
| Other <sup>(1)</sup>        | 36     |
| Balance as of Aug. 31, 2016 | \$ 228 |
| Incremental Provision       | 17     |
| Recoveries                  | (14 )  |
| Write-offs                  | (1 )   |
| Other <sup>(1)</sup>        | 15     |
| Balance as of Feb. 28, 2017 | \$ 245 |

(1)Includes reclassifications from the allowance for current receivables and foreign currency translation adjustments.

On an ongoing basis, the company evaluates credit quality of its financing receivables utilizing aging of receivables, collection experience and write-offs, as well as evaluating existing economic conditions, to determine if an allowance is necessary.

## NOTE 7. INVENTORY

Components of inventory are:

| (Dollars in millions)         | As of            |                     |
|-------------------------------|------------------|---------------------|
|                               | Feb. 28,<br>2017 | Aug.<br>31,<br>2016 |
| Finished Goods                | \$ 1,735         | \$ 1,404            |
| Goods In Process              | 1,525            | 1,489               |
| Raw Materials and Supplies    | 525              | 498                 |
| Inventory at FIFO Cost        | 3,785            | 3,391               |
| Excess of FIFO over LIFO Cost | (164 )           | (150 )              |
| Total                         | \$ 3,621         | \$ 3,241            |

NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the net carrying amount of goodwill for the first six months of fiscal year 2017, by segment, are as follows:

| (Dollars in millions)  | Seeds and Agricultural<br>Genomics | Productivity | Total   |
|--|------------------------------------|--------------|---------|
| Balance as of Aug. 31, 2016                                  | \$ 3,967                           | \$ 53        | \$4,020 |
| Effect of foreign currency translation and other adjustments | (7                                 | )(3          | )(10    |
| Balance as of Feb. 28, 2017                                  | \$ 3,960                           | \$ 50        | \$4,010 |

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There were no events or circumstances indicating that goodwill might be impaired as of Feb. 28, 2017. The fiscal year 2017 annual goodwill impairment test will be performed as of Mar. 1, 2017.

Information regarding the company's other intangible assets is as follows:

| (Dollars in millions)                               | As of Feb. 28, 2017 |                             |         | As of Aug. 31, 2016 |                             |         |
|---|---------------------|-----------------------------|---------|---------------------|-----------------------------|---------|
|   | Carrying<br>Amount  | Accumulated<br>Amortization | Net     | Carrying<br>Amount  | Accumulated<br>Amortization | Net     |
| Acquired Germplasm                                  | \$1,064             | \$ (788 )                   | \$276   | \$1,070             | \$ (778 )                   | \$292   |
| Acquired Intellectual Property                      | 1,062               | (631 )                      | 431     | 1,042               | (593 )                      | 449     |
| Trademarks  | 333                 | (158 )                      | 175     | 334                 | (152 )                      | 182     |
| Customer Relationships                              | 296                 | (227 )                      | 69      | 301                 | (223 )                      | 78      |
| Other   | 66                  | (37 )                       | 29      | 65                  | (33 )                       | 32      |
| Total Other Intangible Assets, Finite Lives         | \$2,821             | \$ (1,841 )                 | \$980   | \$2,812             | \$ (1,779 )                 | \$1,033 |
| In Process Research & Development, Indefinite Lives | 92                  | —                           | 92      | 92                  | —                           | 92      |
| Total Other Intangible Assets                       | \$2,913             | \$ (1,841 )                 | \$1,072 | \$2,904             | \$ (1,779 )                 | \$1,125 |

Total amortization expense of total other intangible assets was \$28 million for the three months ended Feb. 28, 2017, and Feb. 29, 2016, and \$58 million and \$59 million for the six months ended Feb. 28, 2017, and Feb. 29, 2016, respectively.

The estimated intangible asset amortization expense for fiscal year 2017 through fiscal year 2021 is as follows:

| (Dollars in millions) | Amount |
|-----------------------|--------|
| 2017                  | \$ 134 |
| 2018                  | 118    |
| 2019                  | 110    |
| 2020                  | 107    |
| 2021                  | 105    |

**NOTE 9. DEFERRED REVENUE**

As of Feb. 28, 2017, and Aug. 31, 2016, short-term deferred revenue was \$1,407 million and \$568 million, respectively. These balances primarily consist of cash received related to Monsanto's prepayment programs in the United States and Brazil. These programs allow Monsanto's customers to receive a discount if they prepay by a certain date, and the short-term deferred revenue balances are consistent with the seasonality of Monsanto's business. Prepayment options are attractive to customers given the discounted pricing and the ability to utilize cash flow from the current year grain harvest to pay for the next season seed purchases. The deferred revenue balances related to these prepayment programs are considered short-term in nature and thus classified in current liabilities as the prepayments are for products to be shipped within the next 12 months.

**NOTE 10. DEBT AND OTHER CREDIT ARRANGEMENTS**

In April 2016, Monsanto filed a shelf registration with the Securities and Exchange Commission ("SEC") ("2016 shelf registration") that allows the company to issue a maximum aggregate amount of \$6 billion of debt, equity and hybrid offerings. The 2016 shelf registration expires in April 2019.

Monsanto has a \$3 billion credit facility agreement that provides a senior unsecured revolving credit facility through Mar. 27, 2020. As of Feb. 28, 2017, Monsanto was in compliance with all debt covenants, and there were no outstanding borrowings under this credit facility.

Monsanto's short-term debt instruments include commercial paper, the current portion of long-term debt, notes payable to banks and borrowings under the delayed draw term loan facility. As of Feb. 28, 2017, Monsanto had commercial paper borrowings outstanding of \$554 million which are included in short-term debt in the Statement of Consolidated Financial Position. As of Aug. 31, 2016, there was \$500 million of commercial paper borrowings outstanding. Additionally, as of Feb. 28, 2017, the mandatorily redeemable shares of the Brazil VIE were classified as long-term debt instruments. These instruments were classified as short-term debt as of Aug. 31, 2016. See Note 5 — Variable Interest Entities and Investments — for additional information.

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In October 2016, Monsanto closed a \$1 billion delayed draw term loan facility that matures the earlier of October 2019 or the consummation of the Merger with Bayer. Borrowings under the facility were \$500 million as of Feb. 28, 2017. Proceeds were used for general corporate purposes.

The fair value of total short-term debt was \$1,612 million and \$1,589 million as of Feb. 28, 2017, and Aug. 31, 2016, respectively. The fair value of the total long-term debt was \$7,716 million and \$7,834 million as of Feb. 28, 2017, and Aug. 31, 2016, respectively. See Note 11 — Fair Value Measurements — for additional information.

**NOTE 11. FAIR VALUE MEASUREMENTS**

Monsanto determines the fair market value of its financial assets and liabilities based on quoted market prices, estimates from brokers and other appropriate valuation techniques. The company uses the fair value hierarchy established in the Fair Value Measurements and Disclosures topic of the ASC, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy contains three levels as follows, with Level 3 representing the lowest level of input.

Level 1 — Values based on unadjusted quoted market prices in active markets that are accessible at the measurement date for identical assets and liabilities.

Level 2 — Values based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, discounted cash flow models, or other model-based valuation techniques adjusted, as necessary, for credit risk.

Level 3 — Values generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions would reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques could include use of option pricing models, discounted cash flow models and similar techniques.

The following tables set forth by level Monsanto's assets and liabilities disclosed at fair value on a recurring basis as of Feb. 28, 2017, and Aug. 31, 2016. As required by the Fair Value Measurements and Disclosures topic of the ASC, assets and liabilities are classified in their entirety based on the lowest level of input that is a significant component of the fair value measurement. Monsanto's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the classification of fair value assets and liabilities within the fair value hierarchy levels.

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| (Dollars in millions)                      | Fair Value Measurements at<br>Feb. 28, 2017, Using |         |         | Net<br>Balance |
|--|--|---------|---------|----------------|
|  | Level 1  | Level 2 | Level 3 |                |
| Assets at Fair Value:                      |  |         |         |                |
| Cash equivalents                           | \$1,768  | \$—     | \$ —    | \$ 1,768       |
| Short-term investments                     | 10   | —       | —       | 10             |
| Equity securities                          | 10   | —       | —       | 10             |
| Derivative assets related to:              |  |         |         |                |
| Foreign currency contracts                 | —  | 30      | —       | 30             |
| Commodity contracts                        | 17   | 3       | —       | 20             |
| Total Assets at Fair Value                 | \$1,805  | \$33    | \$ —    | \$ 1,838       |
| Liabilities at Fair Value:                 |  |         |         |                |
| Short-term debt instruments <sup>(1)</sup> | \$—  | \$1,612 | \$ —    | \$ 1,612       |
| Long-term debt instruments <sup>(1)</sup>  | —  | 7,611   | 105     | 7,716          |
| Derivative liabilities related to:         |  |         |         |                |
| Foreign currency contracts                 | —  | 4       | —       | 4              |
| Commodity contracts                        | 8  | 8       | —       | 16             |
| Total Liabilities at Fair Value            | \$8  | \$9,235 | \$ 105  | \$ 9,348       |

Debt instruments, excluding mandatorily redeemable shares, are not recorded at fair value on a recurring basis; (1) however, they are measured at fair value for disclosure purposes, as required by the Fair Value Measurements and Disclosures topic of the ASC.

| (Dollars in millions)                      | Fair Value Measurements at<br>Aug. 31, 2016, Using |         |         | Net<br>Balance |
|--|--|---------|---------|----------------|
|  | Level 1  | Level 2 | Level 3 |                |
| Assets at Fair Value:                      |  |         |         |                |
| Cash equivalents                           | \$1,081  | \$—     | \$ —    | \$ 1,081       |
| Short-term investments                     | 60   | —       | —       | 60             |
| Equity securities                          | 13   | —       | —       | 13             |
| Derivative assets related to:              |  |         |         |                |
| Foreign currency contracts                 | —  | 10      | —       | 10             |
| Commodity contracts                        | 9  | 9       | —       | 18             |
| Total Assets at Fair Value                 | \$1,163  | \$19    | \$ —    | \$ 1,182       |
| Liabilities at Fair Value:                 |  |         |         |                |
| Short-term debt instruments <sup>(1)</sup> | \$—  | \$1,476 | \$ 113  | \$ 1,589       |
| Long-term debt instruments <sup>(1)</sup>  | —  | 7,834   | —       | 7,834          |
| Derivative liabilities related to:         |  |         |         |                |
| Foreign currency contracts                 | —  | 15      | —       | 15             |
| Commodity contracts                        | 32   | 20      | —       | 52             |



|                                 |      |         |       |         |
|---------------------------------|------|---------|-------|---------|
| Interest rate contracts         | —    | 41      | —     | 41      |
| Total Liabilities at Fair Value | \$32 | \$9,386 | \$113 | \$9,531 |

Debt instruments, excluding mandatorily redeemable shares, are not recorded at fair value on a recurring basis; (1) however, they are measured at fair value for disclosure purposes, as required by the Fair Value Measurements and Disclosures topic of the ASC.

The company's derivative contracts are measured at fair value, including forward commodity purchase and sale contracts, exchange-traded commodity futures and option contracts and over-the-counter ("OTC") instruments related primarily to agricultural commodities, energy and raw materials, interest rates and foreign currencies.

Exchange-traded futures and options contracts are valued based on unadjusted quoted prices in active markets and are classified as Level 1. Fair value for forward commodity purchase and sale contracts is estimated based on exchange-quoted prices adjusted for differences in local markets. These differences are generally determined using inputs from broker or dealer quotations or market transactions in either the listed or OTC markets and are classified as Level 2. Interest rate contracts consist of interest rate swaps measured using broker

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or dealer quoted prices. When observable inputs are available for substantially the full term of the contract, it is classified as Level 2. Based on historical experience with the company's suppliers and customers, the company's own credit risk and knowledge of current market conditions, the company does not view nonperformance risk to be a significant input to the fair value for the majority of its forward commodity purchase and sale contracts. The effective portions of changes in the fair value of derivatives designated as cash flow hedges are recognized in the Statements of Consolidated Financial Position as a component of accumulated other comprehensive loss until the hedged items are recorded in earnings or it is probable the hedged transaction will no longer occur. Changes in the fair value of derivatives are recognized in the Statements of Consolidated Operations as a component of net sales, cost of goods sold and other (income) expense, net.

The company's short-term investments consist of cash which is contractually restricted as to withdrawal or usage. The company's equity securities consist of publicly traded equity investments. Publicly traded equity investments are valued using quoted market prices and are classified as Level 1. Contractually restricted cash may be held in an interest bearing account measured using prevailing interest rates and is classified as Level 1. Short-term debt instruments are classified as Level 2. The company's long-term debt securities are classified as Level 2 and valued using broker or dealer quoted prices with a maturity greater than one year.

Short-term debt instruments may consist of commercial paper, current portion of long-term debt and notes payable to banks. Commercial paper and notes payable to banks are recorded at amortized cost in the Statements of Consolidated Financial Position, which approximates fair value. Current portion of long-term debt is measured at fair value for disclosure purposes and determined based on current market yields for Monsanto's debt traded in the secondary market. See Note 10 — Debt and Other Credit Arrangements — for additional disclosures.

Long-term debt was measured at fair value for disclosure purposes and determined based on current market yields for Monsanto's debt traded in the secondary market. Long-term debt includes mandatorily redeemable shares. Mandatorily redeemable shares are recorded in the Statements of Consolidated Financial Position at fair value, which represents the amount of cash the consolidated variable interest entity would pay if settlement occurred as of the respective reporting date. Fair value of the mandatorily redeemable shares of the variable interest entity is calculated using observable and unobservable inputs from an interest rate market in Brazil and stated contractual terms (a Level 3 measurement). See Note 10 — Debt and Other Credit Arrangements — for additional disclosures. Accretion expense is included in the Statements of Consolidated Operations as interest expense.

For the six months ended Feb. 28, 2017, and Feb. 29, 2016, the company had no transfers between Level 1, Level 2 and Level 3. Monsanto does not have any assets with fair value determined using Level 3 inputs as of Feb. 28, 2017, and Aug. 31, 2016. The following table summarizes the change in fair value of the Level 3 long-term debt instrument for the six months ended Feb. 28, 2017.

(Dollars in millions)

|  |       |
|--|-------|
| Balance Aug. 31, 2016                              | \$—   |
| Issuance of mandatorily redeemable shares          | 93    |
| Accretion expense                                  | 3     |
| Effect of foreign currency translation adjustments | 9     |
| Balance Feb. 28, 2017 <sup>(1)</sup>               | \$105 |

(1) Includes 315,000 mandatorily redeemable shares outstanding with a par value of 1,000 Brazilian reais (approximately \$323) as of Feb. 28, 2017.



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The following table summarizes the change in fair value of the Level 3 short-term debt instrument for the six months ended Feb. 28, 2017.

(Dollars in millions)

|  |        |
|--|--------|
| Balance Aug. 31, 2016 <sup>(1)</sup>               | \$ 113 |
| Redemption of mandatorily redeemable shares        | (103 ) |
| Accretion expense                                  | 2      |
| Payments   | (7 )   |
| Effect of foreign currency translation adjustments | (5 )   |
| Balance Feb. 28, 2017                              | \$—    |

<sup>(1)</sup> Includes 350,000 mandatorily redeemable shares outstanding with a par value of 1,000 Brazilian reais (approximately \$309) as of Aug. 31, 2016.

There were no significant measurements of liabilities to their implied fair value on a nonrecurring basis during the six months ended Feb. 28, 2017, and Feb. 29, 2016.

Significant measurements during the six months ended Feb. 28, 2017, and Feb. 29, 2016, of assets to their implied fair value on a nonrecurring basis were as follows:

Property, Plant and Equipment, Net: During the three and six months ended Feb. 28, 2017, property, plant and equipment within the Seeds and Genomics segment with a net book value of \$18 million was written down to its implied fair value estimate of \$7 million, resulting in an impairment charge of \$11 million, with \$4 million included in cost of goods sold and \$7 million included in restructuring charges in the Statement of Consolidated Operations. The implied fair value calculations were performed using a discounted cash flow model (a Level 3 measurement). See Note 3 — Restructuring — for additional disclosures.

During the six months ended Feb. 29, 2016, property, plant and equipment within the Seeds and Genomics segment with a net book value of \$44 million was written down to its implied fair value estimate of \$15 million, resulting in an impairment charge of \$29 million, with \$15 million included in cost of goods sold and \$14 million included in restructuring charges in the Statement of Consolidated Operations. The implied fair value calculations were performed using a discounted cash flow model (a Level 3 measurement). See Note 3 — Restructuring — for additional disclosures.

Other Intangible Assets, Net: During the six months ended Feb. 29, 2016, other intangible assets within the Seeds and Genomics segment with a net book value of \$16 million were written down to their implied fair value of less than \$1 million, resulting in an impairment charge of \$16 million, with \$16 million included in restructuring charges in the Statement of Consolidated Operations. The implied fair value calculations were performed using a discounted cash flow model (a Level 3 measurement). See Note 3 — Restructuring — for additional disclosures.

During the six months ended Feb. 29, 2016, other intangible assets within the Agricultural Productivity segment with a net book value of \$20 million were written down to their implied fair value of less than \$1 million, resulting in an impairment charge of \$20 million, with \$20 million included in restructuring charges in the Statement of Consolidated Operations. The implied fair value calculations were performed using a discounted cash flow model (a Level 3 measurement). See Note 3 — Restructuring — for additional disclosures.

The recorded amounts of cash, trade receivables, miscellaneous receivables, third-party guarantees, accounts payable, grower production accruals, accrued marketing programs and miscellaneous short-term accruals approximate their fair values as of Feb. 28, 2017, and Aug. 31, 2016.

Management is ultimately responsible for all fair values presented in the company's consolidated financial statements. The company performs analysis and review of the information and prices received from third parties to ensure that the prices represent a reasonable estimate of fair value. This process involves quantitative and qualitative analysis. As a result of the analysis, if the company determines there is a more appropriate fair value based upon the available market data, the price received from the third party is adjusted accordingly.

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NOTE 12. FINANCIAL  
INSTRUMENTS

Cash Flow Hedges

The company uses foreign currency options and foreign currency forward contracts as hedges of anticipated sales or purchases denominated in foreign currencies. The company enters into these contracts to protect itself against the risk that the eventual net cash flows will be adversely affected by changes in exchange rates.

Monsanto's commodity price risk management strategy is to use derivative instruments to minimize significant unanticipated earnings fluctuations that may arise from volatility in commodity prices. Price fluctuations in commodities, mainly in corn and soybeans, can cause the actual prices paid to production growers for corn and soybean seeds to differ from anticipated cash outlays. Monsanto generally uses commodity futures and options contracts to manage these risks. Monsanto's energy and raw material risk management strategy is to use derivative instruments to minimize significant unanticipated manufacturing cost fluctuations that may arise from volatility in natural gas, diesel and ethylene prices.

Monsanto's interest rate risk management strategy is to use derivative instruments, such as forward-starting interest rate swaps and option contracts, to minimize significant unanticipated earnings fluctuations that may arise from volatility in interest rates of the company's borrowings and to manage the interest rate sensitivity of its debt.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive loss and reclassified into earnings in the period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

The maximum term over which the company is hedging exposures to the variability of cash flow (for all forecasted transactions) is six months for foreign currency hedges and 33 months for commodity hedges. During the next 12 months, a pretax net loss of approximately \$6 million is expected to be reclassified from accumulated other comprehensive loss into earnings. A pretax loss of \$37 million was reclassified into other (income) expense, net as a result of the discontinuance of an interest rate hedge during the six months ended Feb. 28, 2017, because it was probable the original forecasted transaction would not occur by the end of the originally specified time period. A pretax loss of less than \$1 million during the three months ended Feb. 28, 2017, was reclassified into cost of goods sold in the Statement of Consolidated Operations as a result of the discontinuance of foreign currency cash flow hedges because it was probable that the original forecasted transactions would not occur by the end of the originally specified time period. A pretax loss of less than \$1 million during the six months ended Feb. 29, 2016, was reclassified into cost of goods sold in the Statement of Consolidated Operations as a result of the discontinuance of commodity cash flow hedges because it was probable that the original forecasted transaction would not occur by the end of the originally specified time period. No cash flow hedges were discontinued during the three months ended Feb. 29, 2016.

Fair Value Hedges

The company uses commodity futures, forwards and options contracts as fair value hedges to manage the value of its soybean inventory and other assets. For derivative instruments that are designated and qualify as fair value hedges, both the gain or loss on the derivative and the offsetting loss or gain on the hedged item attributable to the hedged risk

are recognized in current earnings. No fair value hedges were discontinued during the three and six months ended Feb. 28, 2017, and Feb. 29, 2016.

#### Derivatives Not Designated as Hedging Instruments

The company uses foreign currency contracts to hedge the effects of fluctuations in exchange rates on foreign currency denominated third-party and intercompany receivables and payables. Both the gain or loss on the derivative and the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. The company uses commodity option contracts to hedge anticipated cash payments to growers in the United States, Mexico and Brazil, which can fluctuate with changes in commodity price. Because these option contracts do not meet the provisions specified by the Derivatives and Hedging topic of the ASC, they do not qualify for hedge accounting treatment. Accordingly, the gain or loss on these derivatives is recognized in current earnings.

To reduce credit exposure in Latin America, Monsanto collects payments on certain customer accounts in grain. Such payments in grain are negotiated at or near the time Monsanto's products are sold to the customers and are valued at the prevailing grain commodity prices. By entering into forward sales contracts related to grain, Monsanto mitigates the commodity price exposure from the time a contract is signed with a customer until the time a grain merchant collects the grain from the customer on

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Monsanto's behalf. The forward sales contracts do not qualify for hedge accounting treatment under the Derivatives and Hedging topic of the ASC. Accordingly, the gain or loss on these derivatives is recognized in current earnings. Monsanto uses interest rate contracts to minimize the variability of forecasted cash flows arising from the company's consolidated VIE in Brazil. The interest rate contracts do not qualify for hedge accounting treatment under the Derivatives and Hedging Topic of the ASC. Accordingly, the gain or loss on these derivatives is recognized in current earnings.

Financial instruments are neither held nor issued by the company for trading purposes.

The notional amounts of the company's derivative instruments outstanding as of Feb. 28, 2017, and Aug. 31, 2016, are as follows:

| (Dollars in millions)                      | As of               |                     |
|--|---------------------|---------------------|
|  | Feb.<br>28,<br>2017 | Aug.<br>31,<br>2016 |
| Derivatives Designated as Hedges:          |                     |                     |
| Foreign exchange contracts                 | \$200               | \$388               |
| Commodity contracts                        | 656                 | 484                 |
| Interest rate contracts                    | —                   | 150                 |
| Total Derivatives Designated as Hedges     | \$856               | \$1,022             |
| Derivatives Not Designated as Hedges:      |                     |                     |
| Foreign exchange contracts                 | \$1,581             | \$1,096             |
| Commodity contracts                        | 192                 | 223                 |
| Interest rate contracts                    | 87                  | 116                 |
| Total Derivatives Not Designated as Hedges | \$1,860             | \$1,435             |



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The net presentation of the company's derivative instruments outstanding was as follows:

| (Dollars in millions)                 | As of Feb. 28, 2017   |  |  |                       |  |   | Other Items<br>Included in<br>Statement of<br>Consolidated<br>Financial<br>Position | Statement of<br>Consolidated<br>Financial<br>Balance |
|---------------------------------------|---|--|--|-----------------------|--|---|---|--|
|                                       | Gross<br>Amounts<br>Recognized<br>in<br>Consolidated<br>Financial<br>Position | Offset in the<br>Statement of<br>Consolidated<br>Financial<br>Position | Net Amounts<br>Included in<br>the Statement<br>of<br>Consolidated<br>Financial<br>Position | Collateral<br>Pledged | Net Amounts<br>Reported in<br>the Statement<br>of<br>Consolidated<br>Financial<br>Position | of<br>Consolidated<br>Financial<br>Position |   |  |
| Asset Derivatives:                    |   |  |  |                       |  |   |   |  |
| Other current assets                  |   |  |  |                       |  |   |   |  |
| Derivatives designated as hedges:     |   |  |  |                       |  |   |   |  |
| Commodity contracts <sup>(1)</sup>    | \$ 14   | \$ (8 )  | \$ 6   | \$ —                  | \$ 6   |   |   |  |
| Foreign exchange contracts            | 7   | —  | 7  | —                     | 7  |   |   |  |
| Derivatives not designated as hedges: |   |  |  |                       |  |   |   |  |
| Commodity contracts                   | 3   | —  | 3  | —                     | 3  |   |   |  |
| Foreign exchange contracts            | 23  | —  | 23   | —                     | 23   |   |   |  |
| Total other current assets            | 47  | (8 )   | 39   | —                     | 39   | \$ 265                                      | \$ 304  |  |
| Other assets                          |   |  |  |                       |  |   |   |  |
| Derivatives designated as hedges:     |   |  |  |                       |  |   |   |  |
| Commodity contracts                   | 3   | —  | 3  | —                     | 3  |   |   |  |
| Total other assets                    | 3   | —  | 3  | —                     | 3  | 490   | 493   |  |
| Total Asset Derivatives               | \$ 50   | \$ (8 )  | \$ 42  | \$ —                  | \$ 42  |   |   |  |
| Liability Derivatives:                |   |  |  |                       |  |   |   |  |
| Other current assets                  |   |  |  |                       |  |   |   |  |
| Derivatives designated as hedges:     |   |  |  |                       |  |   |   |  |
| Commodity contracts <sup>(1)</sup>    | \$ 8  | \$ (8 )  | \$ —   | \$ —                  | \$ —   |   |   |  |
| Total other current assets            | 8   | (8 )   | —  | —                     | —  |   |   |  |
| Miscellaneous short-term accruals     |   |  |  |                       |  |   |   |  |
| Derivatives designated as hedges:     |   |  |  |                       |  |   |   |  |
| Commodity contracts                   | 8   | —  | 8  | —                     | 8  |   |   |  |
| Derivatives not designated as hedges: |   |  |  |                       |  |   |   |  |
| Foreign exchange contracts            | 4   | —  | 4  | —                     | 4  |   |   |  |

|   |      |         |       |    |        |        |        |
|---|------|---------|-------|----|--------|--------|--------|
| Total miscellaneous short-term accruals | 12   | —       | 12    | —  | 12     | \$ 751 | \$ 763 |
| Total Liability Derivatives             | \$20 | \$ (8 ) | \$ 12 | \$ | —\$ 12 |        |        |

(1) As allowed by the Derivatives and Hedging topic of the ASC, derivative assets and liabilities have been offset by collateral subject to an enforceable master netting arrangement or similar arrangement. Therefore, contracts that are in an asset or liability position are included in asset accounts within the Statements of Consolidated Financial Position.

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| (Dollars in millions)                 | As of Aug. 31, 2016   |  |  |                       |  |                                       | Other Items<br>Included in<br>Statement of<br>Consolidated<br>Financial<br>Position | Statement of<br>Consolidated<br>Financial<br>Position |
|---------------------------------------|---|--|--|-----------------------|--|---------------------------------------|---|---|
|                                       | Gross<br>Amounts<br>Recognized<br>in<br>Financial<br>Position | Offset in the<br>Statement of<br>Consolidated<br>Financial<br>Position | Net Amounts<br>Included in<br>the Statement<br>of<br>Consolidated<br>Financial<br>Position | Collateral<br>Pledged | Net Amounts<br>Reported in<br>the Statement<br>of<br>Consolidated<br>Financial<br>Position | Consolidated<br>Financial<br>Position |   |   |
| Asset Derivatives:                    |   |  |  |                       |  |                                       |   |   |
| Other current assets                  |   |  |  |                       |  |                                       |   |   |
| Derivatives designated as hedges:     |   |  |  |                       |  |                                       |   |   |
| Commodity contracts <sup>(1)</sup>    | \$9   | \$ (29 )   | \$ (20 )   | \$ 20                 | \$ —   |                                       |   |   |
| Foreign exchange contracts            | 4   | —  | 4  | —                     | 4  |                                       |   |   |
| Derivatives not designated as hedges: |   |  |  |                       |  |                                       |   |   |
| Commodity contracts <sup>(1)</sup>    | 9   | (6 )   | 3  | —                     | 3  |                                       |   |   |
| Foreign exchange contracts            | 6   | —  | 6  | —                     | 6  |                                       |   |   |
| Total other current assets            | 28  | (35 )  | (7 )   | 20                    | 13   | \$ 214                                |   | \$ 227  |
| Other assets                          |   |  |  |                       |  |                                       |   |   |
| Derivatives designated as hedges      |   |  |  |                       |  |                                       |   |   |
| Commodity contracts <sup>(1)</sup>    | —   | (4 )   | (4 )   | 4                     | —  |                                       |   |   |
| Total other assets                    | —   | (4 )   | (4 )   | 4                     | —  | 489                                   |   | 489   |
| Total Asset Derivatives               | \$28  | \$ (39 )   | \$ (11 )   | \$ 24                 | \$ 13  |                                       |   |   |
| Liability Derivatives:                |   |  |  |                       |  |                                       |   |   |
| Other current assets                  |   |  |  |                       |  |                                       |   |   |
| Derivatives designated as hedges:     |   |  |  |                       |  |                                       |   |   |
| Commodity contracts <sup>(1)</sup>    | \$29  | \$ (29 )   | \$ —   | \$ —                  | \$ —   |                                       |   |   |
| Derivatives not designated as hedges: |   |  |  |                       |  |                                       |   |   |
| Commodity contracts <sup>(1)</sup>    | 6   | (6 )   | —  | —                     | —  |                                       |   |   |
| Total other current assets            | 35  | (35 )  | —  | —                     | —  |                                       |   |   |
| Other assets                          |   |  |  |                       |  |                                       |   |   |
| Derivatives designated as hedges:     |   |  |  |                       |  |                                       |   |   |
| Commodity contracts <sup>(1)</sup>    | 4   | (4 )   | —  | —                     | —  |                                       |   |   |
| Total other assets                    | 4   | (4 )   | —  | —                     | —  |                                       |   |   |

Miscellaneous short-term  
accrualsDerivatives designated as  
hedges:

|   |    |   |    |   |    |        |          |
|---|----|---|----|---|----|--------|----------|
| Commodity contracts                     | 11 | — | 11 | — | 11 |        |          |
| Foreign currency contracts              | 8  | — | 8  | — | 8  |        |          |
| Interest rate contracts                 | 41 | — | 41 | — | 41 |        |          |
| Derivatives not designated as hedges:   |    |   |    |   |    |        |          |
| Foreign exchange contracts              | 7  | — | 7  | — | 7  |        |          |
| Total miscellaneous short-term accruals | 67 | — | 67 | — | 67 | \$ 937 | \$ 1,004 |

## Other liabilities

Derivatives designated as  
hedges:

|                             |       |          |       |      |       |     |     |
|-----------------------------|-------|----------|-------|------|-------|-----|-----|
| Commodity contracts         | 2     | —        | 2     | —    | 2     |     |     |
| Total other liabilities     | 2     | —        | 2     | —    | 2     | 316 | 318 |
| Total Liability Derivatives | \$108 | \$ (39 ) | \$ 69 | \$ — | \$ 69 |     |     |

As allowed by the Derivatives and Hedging topic of the ASC, commodity derivative assets and liabilities have been offset by collateral subject to an enforceable master netting arrangement or similar arrangement. Therefore, (1) these commodity contracts that are in an asset or liability position are included in asset accounts within the Statements of Consolidated Financial Position.

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The gains and losses on the company's derivative instruments were as follows:

| (Dollars in millions)                      | Amount of Gain<br>(Loss)                  |                  | Amount of Gain (Loss)<br>Recognized in Income <sup>(2)(3)</sup> |                  | Statements of Consolidated Operations<br>Classification |
|--|---|------------------|---|------------------|---|
|  | Recognized in AOCI<br>(Effective Portion) |                  | Recognized in Income <sup>(2)(3)</sup>                          |                  |   |
|  | Three Months<br>Ended                     |                  | Three Months Ended  |                  |   |
|  | Feb. 28,<br>2017                          | Feb. 29,<br>2016 | Feb. 28,<br>2017  | Feb. 29,<br>2016 |   |
| Derivatives Designated as Hedges:          |   |                  |   |                  |   |
| Fair value hedges:                         |   |                  |   |                  |   |
| Commodity contracts                        |   |                  | \$ 3  | \$ 1             | Cost of goods sold                                      |
| Cash flow hedges:                          |   |                  |   |                  |   |
| Foreign currency contracts                 | \$ 3                                      | \$ 3             | 3   | 4                | Net sales   |
| Foreign currency contracts                 | 1   | (6               | ) 1   | 6                | Cost of goods sold                                      |
| Commodity contracts                        | 10  | (28              | ) (12   | ) (55            | ) Cost of goods sold                                    |
| Interest rate contracts                    | (1  | ) (17            | ) (4  | ) (5             | ) Interest expense                                      |
| Total Derivatives Designated as Hedges     | 13  | (48              | ) (9  | ) (49            | )   |
| Derivatives Not Designated as Hedges:      |   |                  |   |                  |   |
| Foreign currency contracts <sup>(4)</sup>  |   |                  | 26  | 31               | Other (income) expense, net                             |
| Commodity contracts                        |   |                  | 1   | —                | Net sales   |
| Total Derivatives Not Designated as Hedges |   |                  | 27  | 31               |   |
| Total Derivatives                          | \$ 13                                     | \$ (48           | ) \$ 18   | \$ (18           | )   |

(1) Accumulated other comprehensive loss (AOCL).

(2) For derivatives designated as cash flow hedges under the Derivatives and Hedging topic of the ASC, this represents the effective portion of the gain (loss) reclassified from AOCL into income during the period.

The gain or loss on derivatives designated as hedges from ineffectiveness is not significant during the three months ended Feb. 28, 2017, and Feb. 29, 2016. No gains or losses were excluded from the assessment of hedge effectiveness during the three months ended Feb. 28, 2017, and Feb. 29, 2016.

(3) Gain or loss on derivatives designated as hedges from ineffectiveness is not significant during the three months ended Feb. 28, 2017, and Feb. 29, 2016. No gains or losses were excluded from the assessment of hedge effectiveness during the three months ended Feb. 28, 2017, and Feb. 29, 2016.

(4) Gain or loss on foreign currency contracts not designated as hedges was offset by a foreign currency transaction loss of \$21 million and \$216 million during the three months ended Feb. 28, 2017, and Feb. 29, 2016, respectively.

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| (Dollars in millions)                         | Amount of Gain<br>(Loss)             |                                      | Amount of Gain (Loss)<br>Recognized in Income <sup>(2)(3)</sup> |                                      | Statements of Consolidated Operations<br>Classification |
|---|--------------------------------------|--------------------------------------|---|--------------------------------------|---|
|   | Recognized in AOCL <sup>(1)</sup>    |                                      | Recognized in Income <sup>(2)(3)</sup>                          |                                      |   |
|   | (Effective Portion)                  |                                      |   |                                      |   |
|   | Six Months Ended<br>Feb. 28,<br>2017 | Six Months Ended<br>Feb. 29,<br>2016 | Six Months Ended<br>Feb. 28,<br>2017                            | Six Months Ended<br>Feb. 29,<br>2016 |   |
| Derivatives Designated as<br>Hedges:          |                                      |                                      |   |                                      |   |
| Fair value hedges:                            |                                      |                                      |   |                                      |   |
| Commodity contracts                           |                                      |                                      | \$ (10 )  | \$ 1                                 | Cost of goods sold                                      |
| Cash flow hedges:                             |                                      |                                      |   |                                      |   |
| Foreign currency contracts                    | \$ 20                                | \$ 5                                 | 10  | 8                                    | Net sales   |
| Foreign currency contracts                    | 7                                    | 4                                    | 2   | 13                                   | Cost of goods sold                                      |
| Commodity contracts                           | 29                                   | (37 )                                | (15 )   | (72 )                                | Cost of goods sold                                      |
| Interest rate contracts                       | —                                    | —                                    | (37 )   | —                                    | Other (income) expense, net                             |
| Interest rate contracts                       | 3                                    | (24 )                                | (8 )  | (8 )                                 | Interest expense  |
| Total Derivatives Designated as<br>Hedges     | 59                                   | (52 )                                | (58 )   | (58 )                                |   |
| Derivatives Not Designated as<br>Hedges:      |                                      |                                      |   |                                      |   |
| Foreign currency contracts <sup>(4)</sup>     |                                      |                                      | (19 )   | (24 )                                | Other (income) expense, net                             |
| Commodity contracts                           |                                      |                                      | 1   | 1                                    | Net sales   |
| Commodity contracts                           |                                      |                                      | (1 )  | 1                                    | Cost of goods sold                                      |
| Total Derivatives Not Designated<br>as Hedges |                                      |                                      | (19 )   | (22 )                                |   |
| Total Derivatives                             | \$ 59                                | \$ (52 )                             | \$ (77 )  | \$ (80 )                             |   |

(1) Accumulated other comprehensive loss (AOCL).

(2) For derivatives designated as cash flow hedges under the Derivatives and Hedging topic of the ASC, this represents the effective portion of the gain (loss) reclassified from AOCL into income during the period.

The gain or loss on derivatives designated as hedges from ineffectiveness is not significant during the six months ended Feb. 28, 2017, and Feb. 29, 2016. No gains or losses were excluded from the assessment of hedge effectiveness during the six months ended Feb. 28, 2017, and Feb. 29, 2016.

Gain or loss on foreign currency contracts not designated as hedges was offset by a foreign currency transaction (4) gain of \$18 million and loss of \$188 million during the six months ended Feb. 28, 2017, and Feb. 29, 2016, respectively.

Most of the company's outstanding foreign currency derivatives are covered by International Swap and Derivatives Association ("ISDA") Master Agreements with the counterparties. There are no requirements to post collateral under these agreements; however, should Monsanto's credit rating fall below a specified rating immediately following the merger of the company with another entity, the counterparty may require all outstanding derivatives under the

ISDA Master Agreement to be settled immediately at current market value, which equals carrying value. Foreign currency derivatives that are not covered by ISDA Master Agreements do not have credit-risk-related contingent provisions. Most of Monsanto's outstanding commodity derivatives are listed commodity futures, and the company is required by the relevant commodity exchange to post collateral each day to cover the change in the fair value of these futures in the case of an unrealized loss position. Non-exchange-traded commodity derivatives and interest rate contracts may be covered by the aforementioned ISDA Master Agreements and would be subject to the same credit-risk-related contingent provisions. The aggregate fair value of all derivative instruments under ISDA Master Agreements that are in a liability position was \$8 million and \$63 million as of Feb. 28, 2017, and Aug. 31, 2016, respectively, which is the amount that would be required for settlement if the credit-risk-related contingent provisions underlying these agreements were triggered.

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UNAUDITED (continued)**Credit Risk Management**

Monsanto invests excess cash in deposits with major banks or money market funds throughout the world in high-quality short-term debt instruments. Such investments are made only in instruments issued or enhanced by high-quality institutions. As of Feb. 28, 2017, and Aug. 31, 2016, the company had no financial instruments that represented a significant concentration of credit risk. Limited amounts are invested in any single institution to minimize risk. The company has not incurred any credit risk losses related to those investments.

The company sells a broad range of agricultural products to a diverse group of customers throughout the world. In the United States, the company makes substantial sales to relatively few large wholesale customers. The company's business is highly seasonal and is subject to weather conditions that affect commodity prices and seed yields. Credit limits, ongoing credit evaluation and account monitoring procedures are used to minimize the risk of loss. Collateral is secured when it is deemed appropriate by the company.

Monsanto regularly evaluates its business practices to minimize its credit risk and periodically engages multiple banks in the United States, Latin America and Europe in the development of customer financing options that involve direct bank financing of customer purchases. For further information on these programs, see Note 4 — Customer Financing Programs.

**NOTE 13. POSTRETIREMENT BENEFITS — PENSIONS, HEALTH CARE AND OTHER**

Monsanto maintains noncontributory pension plans for the benefit of its U.S. employees. Effective Jul. 8, 2012, the U.S. pension plans were closed to new entrants; there were no significant changes to these plans for eligible employees hired prior to that date. The company also provides certain postretirement health care and life insurance benefits for eligible retired employees and certain pension plan benefits outside the U.S. The company's net periodic benefit cost for pension benefits and health care and other postretirement benefits include the following components:

| Pension Benefits                                   | Three Months Ended |                  |       | Three Months Ended |                  |       |
|--|--------------------|------------------|-------|--------------------|------------------|-------|
|  | Feb. 28, 2017      |                  |       | Feb. 29, 2016      |                  |       |
| (Dollars in millions)                              | U.S.               | Outside the U.S. | Total | U.S.               | Outside the U.S. | Total |
| Service Cost for Benefits Earned During the Period | \$15               | \$ 3             | \$18  | \$16               | \$ 3             | \$19  |
| Interest Cost on Benefit Obligation                | 20                 | 1                | 21    | 25                 | 2                | 27    |
| Assumed Return on Plan Assets                      | (43)               | (2)              | (45)  | (40)               | (2)              | (42)  |
| Amortization of Unrecognized Net Loss              | 12                 | 1                | 13    | 12                 | 1                | 13    |
| Restructuring Charges                              | —                  | 2                | 2     | —                  | —                | —     |
| Total Net Periodic Benefit Cost                    | \$4                | \$ 5             | \$9   | \$13               | \$ 4             | \$17  |
| Pension Benefits                                   | Six Months Ended   |                  |       | Six Months Ended   |                  |       |
|  | Feb. 28, 2017      |                  |       | Feb. 29, 2016      |                  |       |
| (Dollars in millions)                              | U.S.               | Outside the U.S. | Total | U.S.               | Outside the U.S. | Total |
| Service Cost for Benefits Earned During the Period | \$30               | \$ 6             | \$36  | \$32               | \$ 6             | \$38  |
| Interest Cost on Benefit Obligation                | 41                 | 3                | 44    | 49                 | 4                | 53    |
| Assumed Return on Plan Assets                      | (85)               | (4)              | (89)  | (79)               | (4)              | (83)  |
| Amortization of Unrecognized Net Loss              | 24                 | 2                | 26    | 24                 | 2                | 26    |
| Restructuring Charges                              | —                  | 2                | 2     | —                  | —                | —     |



|                                 |      |    |   |      |      |    |   |      |
|---------------------------------|------|----|---|------|------|----|---|------|
| Total Net Periodic Benefit Cost | \$10 | \$ | 9 | \$19 | \$26 | \$ | 8 | \$34 |
|---------------------------------|------|----|---|------|------|----|---|------|

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|  | Three<br>Months<br>Ended<br>Feb. | Feb.<br>28, 29,<br>2017 | 2016 |
|--|----------------------------------|-------------------------|------|
| Health Care and Other Postretirement Benefits      |                                  |                         |      |
| (Dollars in millions)                              |                                  |                         |      |
| Service Cost for Benefits Earned During the Period | \$ 2                             | \$ 2                    |      |
| Interest Cost on Benefit Obligation                | 1                                | 1                       |      |
| Amortization of Unrecognized Net Loss/(Gain)       | 2                                | (1)                     |      |
| Restructuring Charges                              | 2                                | —                       |      |
| Total Net Periodic Benefit Cost                    | \$ 7                             | \$ 2                    |      |

|  | Six<br>Months<br>Ended<br>Feb. | Feb.<br>28, 29,<br>2017 | 2016 |
|--|--------------------------------|-------------------------|------|
| Health Care and Other Postretirement Benefits      |                                |                         |      |
| (Dollars in millions)                              |                                |                         |      |
| Service Cost for Benefits Earned During the Period | \$ 3                           | \$ 3                    |      |
| Interest Cost on Benefit Obligation                | 2                              | 3                       |      |
| Amortization of Unrecognized Net Loss/(Gain)       | 3                              | (2)                     |      |
| Restructuring Charges                              | 2                              | —                       |      |
| Total Net Periodic Benefit Cost                    | \$ 10                          | \$ 4                    |      |

NOTE 14. STOCK-BASED  
COMPENSATION PLANS

The following table shows total stock-based compensation expense included in the Statements of Consolidated Operations for the three and six months ended Feb. 28, 2017, and Feb. 29, 2016.

|  | Three<br>Months<br>Ended<br>Feb. | Feb.<br>28, 29,<br>2017 | 2016 |
|--|----------------------------------|-------------------------|------|
| (Dollars in millions)                        |                                  |                         |      |
| Cost of Goods Sold                           | \$ 4                             | \$ 3                    |      |
| Selling, General and Administrative Expenses | 19                               | 21                      |      |
| Research and Development Expenses            | 7                                | 8                       |      |
| Pre-Tax Stock-Based Compensation Expense     | 30                               | 32                      |      |
| Income Tax Benefit                           | (10)                             | (11)                    |      |
| Net Stock-Based Compensation Expense         | \$ 20                            | \$ 21                   |      |
|  | Six<br>Months                    |                         |      |

| (Dollars in millions)                        | Ended         |               |
|--|---------------|---------------|
|  | Feb. 28, 2017 | Feb. 29, 2016 |
| Cost of Goods Sold                           | \$7           | \$7           |
| Selling, General and Administrative Expenses | 45            | 46            |
| Research and Development Expenses            | 13            | 16            |
| Restructuring Charges                        | 1             | —             |
| Pre-Tax Stock-Based Compensation Expense     | 66            | 69            |
| Income Tax Benefit                           | (23)          | (23)          |
| Net Stock-Based Compensation Expense         | \$43          | \$46          |

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## NOTE 15. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table sets forth the after-tax components of accumulated other comprehensive loss and changes thereto:

| (Dollars in millions)  | Foreign<br>Currency<br>Translation<br>Adjustments | Postretirement<br>Benefit<br>Items | Net Unrealized<br>Gain (Loss) on<br>Available-for-Sale<br>Securities | Cash<br>Flow<br>Hedges | Total<br>Accumulated<br>Other<br>Comprehensive<br>(Loss) Income |
|--|---|------------------------------------|--|------------------------|---|
| Balance as of Aug. 31, 2015                                    | \$ (2,327 )                                       | \$ (286 )                          | \$ 2   | \$ (190 )              | \$ (2,801 )   |
| Other comprehensive income (loss) before reclassifications     | 35  | (83 )                              | (2 )   | (42 )                  | (92 )   |
| Amounts reclassified from accumulated other comprehensive loss | —   | 29                                 | 1  | 55                     | 85  |
| Net current-period other comprehensive income (loss)           | 35  | (54 )                              | (1 )   | 13                     | (7 )  |
| Balance as of Aug. 31, 2016                                    | \$ (2,292 )                                       | \$ (340 )                          | \$ 1   | \$ (177 )              | \$ (2,808 )   |
| Other comprehensive (loss) income before reclassifications     | (98 )   | —                                  | (2 )   | 38                     | (62 )   |
| Amounts reclassified from accumulated other comprehensive loss | —   | 23                                 | 1  | 29                     | 53  |
| Net current-period other comprehensive (loss) income           | (98 )   | 23                                 | (1 )   | 67                     | (9 )  |
| Balance as of Feb. 28, 2017                                    | \$ (2,390 )                                       | \$ (317 )                          | \$ —   | \$ (110 )              | \$ (2,817 )   |

The following table provides additional information regarding items reclassified out of accumulated other comprehensive loss into earnings.

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| (Dollars in millions)                  | Three Months Ended |               | Six Months Ended |               | Affected Line Item in the Statements of Consolidated Operations |
|--|--------------------|---------------|------------------|---------------|---|
|  | Feb. 28, 2017      | Feb. 29, 2016 | Feb. 28, 2017    | Feb. 29, 2016 |   |
| Available for Sale Securities:         |                    |               |                  |               |   |
| Loss on Equity Security                | \$2                | \$—           | \$2              | \$—           | Other (income) expense, net                                     |
|  | 2                  | —             | 2                | —             | Total before income taxes                                       |
|  | (1)                | —             | (1)              | —             | Income tax provision  |
|  | \$1                | \$—           | \$1              | \$—           | Net of tax  |
| Cash Flow Hedges:                      |                    |               |                  |               |   |
| Foreign Exchange Contracts             | \$(3)              | \$(4)         | \$(10)           | \$(8)         | Net sales   |
| Foreign Exchange Contracts             | (1)                | (6)           | (2)              | (13)          | Cost of goods sold  |
| Commodity Contracts                    | 12                 | 55            | 15               | 72            | Cost of goods sold  |
| Interest Rate Contracts                | —                  | —             | 37               | —             | Other (income) expense, net                                     |
| Interest Rate Contracts                | 4                  | 5             | 8                | 8             | Interest expense  |
|  | 12                 | 50            | 48               | 59            | Total before income taxes                                       |
|  | (4)                | (21)          | (19)             | (26)          | Income tax provision  |
|  | \$8                | \$29          | \$29             | \$33          | Net of tax  |
| Postretirement Benefit Items:          |                    |               |                  |               |   |
| Amortization of Unrecognized Net Loss  | \$5                | \$4           | \$11             | \$8           | Inventory/Cost of goods sold <sup>(1)</sup>                     |
| Amortization of Unrecognized Net Loss  | 10                 | 8             | 20               | 16            | Selling, general and administrative expenses                    |
| Amortization of Unrecognized Net Loss  | 4                  | —             | 4                | —             | Restructuring charges   |
|  | 19                 | 12            | 35               | 24            | Total before income taxes                                       |
|  | (6)                | (5)           | (12)             | (8)           | Income tax provision  |
|  | \$13               | \$7           | \$23             | \$16          | Net of tax  |
| Total Reclassifications For The Period | \$22               | \$36          | \$53             | \$49          | Net of tax  |

The amortization of unrecognized net loss is recorded to net periodic benefit cost, which is allocated to selling, general and administrative expenses and to inventory, which is recognized through cost of goods sold. The company recorded \$5 million and \$4 million of net periodic benefit cost to inventory, of which approximately \$3 million and \$2 million was recognized in cost of goods sold during the three months ended Feb. 28, 2017, and Feb. 29, 2016, respectively. The company recorded \$11 million and \$8 million of net periodic benefit cost to inventory, of which approximately \$10 million and \$7 million was recognized in cost of goods sold during the six months ended Feb. 28, 2017, and Feb. 29, 2016, respectively. See Note 13 — Postretirement Benefits - Pensions, Health Care and Other — for additional information.

## NOTE 16. EARNINGS PER SHARE

Basic earnings per share (“EPS”) was computed using the weighted-average number of common shares outstanding during the periods shown in the table below. The diluted EPS computation takes into account the effect of dilutive potential common shares when in a net income position. Potential common shares consist primarily of stock options, restricted stock, restricted stock units and directors’ deferred shares calculated using the treasury stock method and are excluded if their effect is antidilutive. Of those antidilutive options, certain options were excluded from the computations of dilutive potential common shares as their exercise prices were greater than the average market price of the common shares for the period.

| (Shares in millions)   | Three Months Ended |               | Six Months Ended |               |
|--|--------------------|---------------|------------------|---------------|
|  | Feb. 28, 2017      | Feb. 29, 2016 | Feb. 28, 2017    | Feb. 29, 2016 |
| Weighted-Average Number of Common Shares   | 438.7              | 438.6         | 438.4            | 447.2         |
| Dilutive Potential Common Shares   | 3.6                | 3.1           | 3.9              | 3.8           |
| Antidilutive Potential Common Shares   | 2.2                | 5.6           | 4.0              | 5.0           |
| Shares Excluded From Computation of Dilutive Potential Shares with Exercise Prices Greater than the Average Market Price of Common Shares for the Period | 1.7                | 3.2           | 3.1              | 3.2           |

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## NOTE 17. SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments for interest and taxes were as follows:

|                       | Six<br>Months<br>Ended |                  |
|-----------------------|------------------------|------------------|
| (Dollars in millions) | Feb. 28,<br>2017       | Feb. 29,<br>2016 |
| Interest              | \$225                  | \$201            |
| Taxes                 | 187                    | 285              |

During the six months ended Feb. 28, 2017, and Feb. 29, 2016, the company recorded the following noncash transactions:

During the six months ended Feb. 28, 2017, and Feb. 29, 2016, the company recognized noncash transactions related to restructuring. See Note 3 — Restructuring.

As of Feb. 28, 2017, and Feb. 29, 2016, the company recognized noncash capital expenditures of \$117 million and \$68 million, respectively, in accounts payable in the Statements of Consolidated Financial Position.

During the six months ended Feb. 28, 2017, and Feb. 29, 2016, the company recognized noncash transactions related to stock-based compensation. See Note 14 — Stock-Based Compensation Plans.

In the second quarter of 2017 and 2016, the board of directors declared a dividend which is payable in the third quarter of 2017 and 2016, respectively. As of Feb. 28, 2017, and Feb. 29, 2016, a dividend payable of \$237 million and \$236 million, respectively, was recorded.

## NOTE 18. COMMITMENTS AND CONTINGENCIES

**Environmental and Litigation Liabilities:** Monsanto is involved in environmental remediation and legal proceedings to which Monsanto is party in its own name and proceedings to which its former parent, Pharmacia LLC (“Pharmacia”), or its former subsidiary, Solutia, Inc. (“Solutia”), is a party but that Monsanto manages and for which Monsanto is responsible pursuant to certain indemnification agreements. In addition, Monsanto has liabilities established for various product claims. With respect to certain of these proceedings, Monsanto has a liability recorded of \$272 million and \$545 million as of Feb. 28, 2017, and Aug. 31, 2016, respectively, for the estimated contingent liabilities. Information regarding the environmental liabilities appears in Monsanto’s Report on Form 10-K for the fiscal year ended Aug. 31, 2016.

**Litigation:** The above liability includes amounts related to certain third-party litigation with respect to Monsanto’s business, as well as tort litigation related to Pharmacia’s former chemical business, including lawsuits involving polychlorinated biphenyls (“PCBs”), dioxins, and other chemical and premises liability litigation. Additional matters that are not reflected in the liability may arise in the future, and Monsanto may manage, settle, or pay judgments or damages with respect thereto in order to mitigate contesting potential liability. Following is a description of one of the more significant litigation matters.

As described in Monsanto’s Report on Form 10-K for the fiscal year ended Aug. 31, 2016, and our Report on Form 10-Q for the quarterly period ended Nov. 30, 2016, the company was named in approximately 30 personal injury lawsuits filed over several years on behalf of approximately 750 persons in state courts in St. Louis, Missouri and Los Angeles, California. Plaintiffs claimed they were injured by PCBs manufactured by Pharmacia’s chemical business

over four decades ago and incorporated into products made, used and sometimes disposed of by others. In September 2016, the parties reached an agreement to settle these personal injury lawsuits pursuant to which the company is required to pay up to \$280 million into a settlement fund, with the settlement and the final payment amount contingent upon the level of claimant participation. As of Aug. 31, 2016, \$280 million was recorded in the Statement of Consolidated Financial Position within miscellaneous short-term accruals; the related expense was included in selling, general and administrative expenses in the Statement of Consolidated Operations. In November 2016 and December 2016, the first and second claimant participation levels were met, and the company paid \$250 million and \$25 million respectively, into the settlement fund. In February 2017, a pro rata portion of the final claimant participation level was met, and a payment of approximately \$4 million was made in April 2017. The company also has been named in lawsuits brought by various governmental entities claiming that Monsanto, Pharmacia and Solutia, collectively as a manufacturer of PCBs, should be responsible for a variety of damages due to PCBs in bodies of water, regardless of how PCBs came to be located there. The company believes that these novel claims are without merit and is vigorously defending the cases on legal and factual grounds.



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Including litigation reflected in the liability, Monsanto is involved in various legal proceedings that arise in the ordinary course of its business or pursuant to Monsanto's indemnification obligations to Pharmacia, as well as proceedings that management has considered to be material under SEC regulations. Some of the lawsuits seek damages in very large amounts or seek to restrict the company's business activities. Monsanto believes that it has meritorious legal arguments and will continue to represent its interests vigorously in all of the proceedings that it is defending or prosecuting. Management does not anticipate the ultimate liabilities resulting from such proceedings, or the proceedings reflected in the above liability, will have a material adverse effect on Monsanto's consolidated results of operations, financial position, cash flows or liquidity.

The company is defending lawsuits in various state and federal courts, in which approximately 1,100 plaintiffs claim to have been injured by exposure to glyphosate-based products manufactured by the company. The majority of plaintiffs have brought actions in state courts in Missouri, Delaware and California, while the remainder of plaintiffs' cases were filed in many different federal courts. In October 2016, the Judicial Panel on Multi-District Litigation transferred to the Northern District of California all of the federal cases for pretrial purposes. The company believes that it has meritorious factual and legal defenses to these cases and is vigorously defending them.

Legal actions have been filed in Brazil that raise various issues challenging the right to collect certain royalties for Roundup Ready soybeans, such as whether Brazilian pipeline patents have the duration of their corresponding U.S. patents (2014 for Roundup Ready soybeans) and whether Brazil's Plant Variety Protection law affects the enforceability of patents. These issues are currently under judicial review in Brazil. Monsanto believes it has meritorious legal arguments and will continue to represent its interests vigorously in these proceedings. The current estimate of the company's reasonably possible loss contingency is not material to consolidated results of operations, financial position, cash flows or liquidity.

Guarantees: Disclosures regarding the guarantees Monsanto provides for certain customer loans in the United States, Latin America and Europe can be found in Note 4 — Customer Financing Programs — of this Form 10-Q. Except as described in that note, there have been no significant changes to guarantees made by Monsanto since Aug. 31, 2016. Disclosures regarding these guarantees made by Monsanto can be found in Note 24 — Commitments and Contingencies — of the notes to the consolidated financial statements contained in Monsanto's Report on Form 10-K for the fiscal year ended Aug. 31, 2016.

Off-Balance Sheet Arrangement: Monsanto is in the process of making a significant expansion of its Chesterfield, Missouri facility. In December 2013, Monsanto executed the first of a series of incentive agreements with the County of St. Louis, Missouri. Under these agreements Monsanto has transferred the Chesterfield, Missouri facility to St. Louis County and received Industrial Revenue Bonds in the amount of up to \$470 million, which enables the company to reduce the cost of constructing and operating the expansion by reducing certain state and local tax expenditures. Monsanto immediately leased the facility from the County of St. Louis and has an option to purchase the facility upon tendering the Industrial Revenue Bonds received to the County. The payments due to the company in relation to the Industrial Revenue Bonds and owed by the company in relation to the lease of the facility qualify for the right of offset under ASC 210, Balance Sheet, in the Statements of Consolidated Financial Position. As such, neither the Industrial Revenue Bonds nor the lease obligation are recorded in the Statements of Consolidated Financial Position as an asset or liability, respectively. The Chesterfield facility and the expansion are being treated as being owned by Monsanto.

NOTE 19.

SEGMENT  
INFORMATION

Monsanto conducts its worldwide operations through global businesses, which are aggregated into reportable segments based on similarity of products, production processes, customers, distribution methods and economic characteristics. The operating segments are aggregated into two reportable segments: Seeds and Genomics and Agricultural Productivity.

The Seeds and Genomics segment consists of the global seeds and related traits businesses, biotechnology platforms and digital agriculture. Within the Seeds and Genomics segment, Monsanto's significant operating segments are corn seed and traits, soybean seed and traits, cotton seed and traits, vegetable seeds and all other crops seeds and traits. The Agricultural Productivity reportable segment consists of the Agricultural Productivity operating segment. EBIT is defined as earnings (loss) before interest and taxes and is an operating performance measure for the two reportable segments. EBIT is useful to management in demonstrating the operational profitability of the segments by excluding interest and taxes, which are generally accounted for across the entire company on a consolidated basis. Sales between segments were not significant. Certain selling, general and administrative expenses ("SG&A") are allocated between segments based on the segment's relative contribution to total Monsanto operations. Allocation percentages remain consistent for fiscal years 2016 and 2017.

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Data for the Seeds and Genomics and Agricultural Productivity reportable segments, as well as for Monsanto's significant operating segments, is presented in the table as follows:

| (Dollars in millions)                 | Three Months        |                     | Six Months          |                     |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                       | Ended               |                     | Ended               |                     |
|                                       | Feb.<br>28,<br>2017 | Feb.<br>29,<br>2016 | Feb.<br>28,<br>2017 | Feb.<br>29,<br>2016 |
| Net Sales <sup>(1)</sup>              |                     |                     |                     |                     |
| Corn seed and traits                  | \$2,902             | \$2,687             | \$3,851             | \$3,432             |
| Soybean seed and traits               | 862                 | 782                 | 1,462               | 1,220               |
| Cotton seed and traits                | 108                 | 37                  | 224                 | 85                  |
| Vegetable seeds                       | 193                 | 192                 | 324                 | 330                 |
| All other crops seeds and traits      | 121                 | 119                 | 173                 | 149                 |
| Total Seeds and Genomics              | \$4,186             | \$3,817             | \$6,034             | \$5,216             |
| Agricultural productivity             | 888                 | 715                 | 1,690               | 1,535               |
| Total Agricultural Productivity       | \$888               | \$715               | \$1,690             | \$1,535             |
| Total                                 | \$5,074             | \$4,532             | \$7,724             | \$6,751             |
| Gross Profit                          |                     |                     |                     |                     |
| Corn seed and traits                  | \$1,932             | \$1,721             | \$2,467             | \$2,087             |
| Soybean seed and traits               | 628                 | 527                 | 1,079               | 829                 |
| Cotton seed and traits                | 77                  | 18                  | 150                 | 43                  |
| Vegetable seeds                       | 99                  | 96                  | 168                 | 136                 |
| All other crops seeds and traits      | 41                  | 66                  | 53                  | 61                  |
| Total Seeds and Genomics              | \$2,777             | \$2,428             | \$3,917             | \$3,156             |
| Agricultural productivity             | 175                 | 170                 | 294                 | 343                 |
| Total Agricultural Productivity       | \$175               | \$170               | \$294               | \$343               |
| Total                                 | \$2,952             | \$2,598             | \$4,211             | \$3,499             |
| EBIT <sup>(2)(3)</sup>                |                     |                     |                     |                     |
| Seeds and Genomics                    | \$1,839             | \$1,497             | \$2,038             | \$1,164             |
| Agricultural Productivity             | 119                 | 7                   | 132                 | 66                  |
| Total                                 | \$1,958             | \$1,504             | \$2,170             | \$1,230             |
| Depreciation and Amortization Expense |                     |                     |                     |                     |
| Seeds and Genomics                    |                     | \$142               | \$152               | \$285               |
| Agricultural Productivity             |                     | 41                  | 32                  | 87                  |
| Total                                 |                     | \$183               | \$184               | \$372               |

(1) Represents net sales from continuing operations.

EBIT is defined as earnings (loss) before interest and taxes; see the following table for reconciliation. Earnings

(2) (loss) is intended to mean net income (loss) attributable to Monsanto Company as presented in the Statements of Consolidated Operations under U.S. GAAP. EBIT is an operating performance measure for the two reportable segments.

Agricultural Productivity EBIT includes income from operations of discontinued businesses of \$5 million and \$4 million for the three months ended Feb. 28, 2017, and Feb. 29, 2016, respectively. Agricultural Productivity EBIT (3) includes income from operations of discontinued businesses of \$21 million and \$24 million for the six months ended Feb. 28, 2017, and Feb. 29, 2016, respectively.

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A reconciliation of EBIT to net income attributable to Monsanto Company for each period is as follows:

|   | Three Months |          | Six Months |          |
|---|--------------|----------|------------|----------|
|   | Ended        |          | Ended      |          |
|   | Feb.         | Feb.     | Feb.       | Feb.     |
| (Dollars in millions)                       | 28,          | 29,      | 28,        | 29,      |
|   | 2017         | 2016     | 2017       | 2016     |
| EBIT <sup>(1)</sup>                         | \$ 1,958     | \$ 1,504 | \$ 2,170   | \$ 1,230 |
| Interest Expense — Net                      | 84           | 86       | 202        | 195      |
| Income Tax Provision <sup>(2)</sup>         | 506          | 355      | 571        | 225      |
| Net Income Attributable to Monsanto Company | \$ 1,368     | \$ 1,063 | \$ 1,397   | \$ 810   |

(1) Includes the income from operations of discontinued businesses and the (loss) income from operations of noncontrolling interests.

(2) Includes the income tax provision on discontinued operations and the income tax (benefit) expense of noncontrolling interest.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Background

Monsanto Company, along with its subsidiaries, is a leading global provider of agricultural products for farmers. Our seeds, biotechnology trait products, herbicides and digital agriculture products provide farmers with solutions that help improve productivity, reduce the costs of farming and produce better food for consumers and better feed for animals.

We manage our business in two reporting segments: Seeds and Genomics and Agricultural Productivity. Through our Seeds and Genomics segment, we produce leading seed brands, including DEKALB, Asgrow, Deltapine, Seminis and De Ruiters, and we develop biotechnology traits that assist farmers in controlling insects and weeds and digital agriculture products to assist farmers in decision making. We also provide other seed companies with genetic material and biotechnology traits for their seed brands. Through our Agricultural Productivity segment, we manufacture Roundup and Harness brand herbicides and other herbicides.

Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations should be read in conjunction with Monsanto's consolidated financial statements and the accompanying notes. This Report on Form 10-Q should also be read in conjunction with Monsanto's Report on Form 10-K for the fiscal year ended Aug. 31, 2016. Financial information for the second quarter and the first six months of fiscal year 2017 should not be annualized because of the seasonality of our business. The notes to the consolidated financial statements referred to throughout this MD&A are included in Part I — Item 1 — Financial Statements — of this Report on Form 10-Q. Unless otherwise indicated, "Monsanto," the "company," "we," "our" and "us" are used interchangeably to refer to Monsanto Company or to Monsanto Company and its consolidated subsidiaries, as appropriate to the context. Unless otherwise indicated, "earnings per share" and "per share" mean diluted earnings per share. Unless otherwise indicated, trademarks owned or licensed by Monsanto or its subsidiaries are shown in special type. Unless otherwise noted, all amounts and analyses are based on continuing operations. Unless otherwise indicated, references to "Roundup herbicides" mean Roundup branded herbicides, excluding all lawn-and-garden herbicides and other glyphosate-based herbicides, and references to "Roundup and other glyphosate-based herbicides" exclude all lawn-and-garden herbicides.

Non-GAAP Financial Measures

MD&A includes financial information prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"), as well as two other financial measures, EBIT and free cash flow, that are considered "non-GAAP financial measures." Generally, a non-GAAP financial measure is a numerical measure of a company's financial performance, financial position or cash flows that exclude (or include) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. The presentation of EBIT is intended to supplement investors' understanding of our operating performance. The presentation of free cash flow information is intended to supplement investors' understanding of our liquidity. Our EBIT and free cash flow measures may not be comparable to other companies' EBIT and free cash flow measures. Furthermore, these measures are not intended to replace net income (loss) attributable to Monsanto Company, cash flows, financial position or comprehensive income (loss), as determined in accordance with GAAP.

EBIT is defined as earnings (loss) before interest and taxes. Earnings (loss) is intended to mean net income (loss) attributable to Monsanto Company as presented in the Statements of Consolidated Operations under GAAP. EBIT is an operating performance measure for our two business segments. We believe that EBIT is useful to investors and management to demonstrate the operational profitability of our segments by excluding interest and taxes, which are generally accounted for across the entire company on a consolidated basis. EBIT is also one of the measures used by Monsanto management to determine resource allocations within the company. See Item 1 — Financial Statements — Note 19 — Segment Information — for a reconciliation of EBIT to net income attributable to Monsanto Company for the three and six months ended Feb. 28, 2017, and Feb. 29, 2016.

We also provide information regarding free cash flow, an important liquidity measure for Monsanto. We define free cash flow as the total of net cash provided or required by operating activities less capital expenditures. Prior to the

second quarter of fiscal year 2017, we defined free cash flow as the total of net cash provided or required by operating activities and net cash provided or required by investing activities. As this definition varies from other more common definitions of free cash flow, we determined it was appropriate to redefine free cash flow to conform to one of the more typical definitions beginning with the second quarter for fiscal year 2017. The prior period calculations of free cash flow have been restated to conform to the new presentation. Free cash flow does not represent the residual cash flow available for discretionary expenditures. We believe that

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free cash flow is useful to investors and management as a measure of the ability of our business to generate cash. Once business needs and obligations are met, this cash can be used to reinvest in the company for future growth or to return to our shareowners through dividend payments or share repurchases. See the “Financial Condition, Liquidity and Capital Resources — Cash Flow” section of MD&A for a reconciliation of free cash flow to net cash provided by operating activities and capital expenditures on the Statements of Consolidated Cash Flows.

## Executive Summary

Consolidated Operating Results — Net sales increased \$542 million, or 12 percent, in the three month comparison and increased \$973 million, or 14 percent, in the six month comparison. The primary contributors to the increase in the three month comparison were increases in corn seed and traits, soybean seed and traits, cotton seed and traits and agricultural productivity. The net sales increase in corn seed and traits was primarily driven by higher average net selling prices in South America and higher volume due to timing of grower demand in Europe. The net sales increase in soybean seed and traits was primarily driven by increased Roundup Ready 2 XTEND penetration in the United States. The net sales increase in cotton seed and traits was primarily driven by a timing benefit in the United States resulting from a change in our customer contracts. The increase in agricultural productivity reflects increased volume of Roundup and other glyphosate-based herbicides globally and first time XtendiMax with VaporGrip Technology dicamba-based herbicide revenue in the United States. This is partially offset by lower average net selling price of Roundup and other glyphosate-based herbicides.

The primary contributors to the increase in the six month comparison were increases in corn seed and traits, soybean seed and traits, cotton seed and traits and agricultural productivity. The net sales increase in corn seed and traits was primarily driven by higher volume due to timing of grower demand, higher average net selling prices in South America and favorable currency impacts in Brazil. The net sales increase in soybean seed and traits was primarily driven by increased Intacta RR2 PRO penetration in Brazil and Argentina, increased Roundup Ready 2 XTEND penetration in the United States and favorable currency impacts in Brazil. The net sales increase in cotton seed and traits was primarily driven by higher volumes in Australia from increased planted area and a timing benefit in the United States resulting from a change in our customer contracts. The increase in agricultural productivity reflects increased volume of Roundup and other glyphosate-based herbicides globally, first time XtendiMax with VaporGrip Technology dicamba-based herbicide revenue and favorable currency impact in Brazil. This is partially offset by lower average net selling price of Roundup and other glyphosate-based herbicides.

For a detailed discussion of the factors affecting net sales, cost of goods sold and gross profit, see the “Seeds and Genomics Segment” and “Agricultural Productivity Segment” sections in this MD&A.

Net income attributable to Monsanto Company was \$3.09 per share in the second quarter of 2017, compared to \$2.41 per share in the second quarter of 2016. Net income attributable to Monsanto Company was \$3.16 per share in the first half of fiscal 2017, compared to \$1.80 per share in the first half of fiscal 2016.

Financial Condition, Liquidity and Capital Resources — At Feb. 28, 2017, working capital was \$2,593 million compared with \$2,544 million at Feb. 29, 2016, an increase of \$49 million, and compared with \$1,428 million at Aug. 31, 2016, an increase of \$1,165 million. For a detailed discussion of the factors affecting the working capital comparison, see the “Working Capital and Financial Condition” section of the “Financial Condition, Liquidity and Capital Resources” section in this MD&A.

In the first six months of fiscal 2017, net cash provided by operating activities was \$1,537 million compared with \$1,389 million provided in the first six months of fiscal 2016. Net cash required by investing activities was \$438 million in the first six months of fiscal 2017 compared with \$483 million in the first six months of fiscal 2016. Net cash required by financing activities was \$494 million in the first six months of fiscal 2017 compared with \$3,502 million in the first six months of fiscal 2016. Free cash flow was an inflow of \$994 million in the first six months of fiscal 2017 compared with an inflow of \$900 million in the first six months of fiscal 2016. For a detailed discussion of the factors affecting the free cash flow comparison, see the “Cash Flow” section of the “Financial Condition, Liquidity and Capital Resources” section in this MD&A.

At Feb. 28, 2017, our debt-to-capital ratio was 62 percent compared with 67 percent at Aug. 31, 2016. The five percentage point decrease from Aug. 31, 2016, was primarily due to an increase in shareowners’ equity resulting from



earnings during the fiscal year slightly offset by dividends declared.

For a detailed discussion see the “Capital Resources and Liquidity” section of the “Financial Condition, Liquidity and Capital Resources” section in this MD&A.

Pending Merger with Bayer — On Sept. 14, 2016, we entered into an agreement and plan of merger (the “Merger Agreement”) with Bayer Aktiengesellschaft, a German stock corporation (“Bayer”), and KWA Investment Co., a Delaware corporation and an indirect wholly owned subsidiary of Bayer (“Merger Sub”). The Merger Agreement provides, among other things and subject to the terms and conditions set forth therein, that Merger Sub will be merged with and into the company (the “Merger”), with the company continuing as the surviving corporation and as a wholly owned subsidiary of Bayer. The Merger

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Agreement provides that each share of common stock of the company, par value \$0.01 per share (other than certain shares specified in the Merger Agreement), outstanding immediately prior to the effective time of the Merger will be automatically converted into the right to receive \$128.00 in cash, without interest. The obligation of the parties to complete the Merger is subject to customary closing conditions, including, among others, (i) the approval of the adoption of the Merger Agreement by the holders of a majority of the outstanding shares of common stock of the company entitled to vote, which was obtained at a special meeting of the company's shareowners held on Dec. 13, 2016, (ii) the expiration or earlier termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (iii) the adoption of all approvals necessary for the completion of the Merger by the European Commission under Council Regulation (EC) No. 139/2004, (iv) the receipt of certain other required foreign antitrust approvals, (v) completion of the review process by the Committee on Foreign Investment in the United States ("CFIUS"), (vi) no approvals related to CFIUS or antitrust laws having been made or obtained with the imposition of conditions that, together with Divestiture Actions (as defined in the Merger Agreement) undertaken, would reasonably be expected to have a Substantial Detriment (as defined in the Merger Agreement), (vii) no law, order or injunction that is in effect that enjoins or otherwise prohibits the completion of the Merger having been enacted, issued, promulgated, enforced or entered into after Sept. 14, 2016, by a court or other governmental entity of competent jurisdiction, (viii) the accuracy of the representations and warranties contained in the Merger Agreement (subject to certain qualifications) and (ix) the performance by the parties of their respective obligations under the Merger Agreement in all material respects. Additional information about the Merger Agreement is set forth in our Current Report on Form 8-K filed with the SEC on Sept. 20, 2016.

Outlook — We plan to continue to innovate and improve our products in order to maintain market leadership and to support near-term performance. We are focused on applying innovation and technology to make our farmer customers more productive and profitable by protecting and improving yields and improving the ways they can produce food, fiber, feed and fuel. We use the tools of modern biology and technology in an effort to make seeds easier to grow, to allow farmers to do more with fewer resources and to help produce healthier foods for consumers. Our current R&D strategy and commercial priorities are focused on bringing our farmer customers integrated yield solutions through our innovative platforms in plant breeding, biotechnology, chemistry, biologicals and data science. Our capabilities in biotechnology and breeding research are generating a rich product pipeline that is expected to drive long-term growth. The viability of our product pipeline depends in part on the speed of regulatory approvals globally, continued patent and legal rights to offer our products, general public acceptance of the products and the value they will deliver to the market.

Roundup herbicides remain the largest crop protection brand globally. Monsanto's crop protection business focus is to support strategically Monsanto's Roundup Ready crops through our weed management platform that delivers weed control offerings for farmers. We are focused on managing the costs associated with our agricultural chemistry business as that sector matures globally.

See the "Outlook" section of MD&A for a more detailed discussion of some of the opportunities and risks we have identified for our business. For additional information related to the outlook for Monsanto, see "Caution Regarding Forward-Looking Statements" at the beginning of this Report on Form 10-Q, Part II — Item 1A — Risk Factors below and Part I — Item 1A — Risk Factors of our Report on Form 10-K for the fiscal year ended Aug. 31, 2016.

New Accounting Pronouncements — See Item 1 — Financial Statements — Note 2 — New Accounting Standards — for a description of recently issued and adopted accounting pronouncements, including the dates of adoption and impacts on our results of operations, financial position and cash flows, as applicable.

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## RESULTS OF OPERATIONS

| (Dollars in millions, except per share amounts)   | Three Months Ended |                  |                         | Six Months Ended |                  |                         |
|---|--------------------|------------------|-------------------------|------------------|------------------|-------------------------|
|   | Feb. 28,<br>2017   | Feb. 29,<br>2016 | Increase/<br>(Decrease) | Feb. 28,<br>2017 | Feb. 29,<br>2016 | Increase/<br>(Decrease) |
| Net Sales   | \$5,074            | \$4,532          | 12 %                    | \$7,724          | \$6,751          | 14 %                    |
| Cost of goods sold  | 2,122              | 1,934            | 10 %                    | 3,513            | 3,252            | 8 %                     |
| Gross Profit  | 2,952              | 2,598            | 14 %                    | 4,211            | 3,499            | 20 %                    |
| Operating Expenses:   |                    |                  |                         |                  |                  |                         |
| Selling, general and administrative expenses  | 657                | 586              | 12 %                    | 1,242            | 1,129            | 10 %                    |
| Research and development expenses   | 381                | 340              | 12 %                    | 751              | 704              | 7 %                     |
| Restructuring charges   | 23                 | 9                | NM                      | (13 )            | 275              | NM                      |
| Pending Bayer transaction related costs   | 27                 | —                | NM                      | 120              | —                | NM                      |
| Total Operating Expenses  | 1,088              | 935              | 16 %                    | 2,100            | 2,108            | — %                     |
| Income from Operations  | 1,864              | 1,663            | 12 %                    | 2,111            | 1,391            | 52 %                    |
| Interest expense  | 102                | 103              | (1 )%                   | 238              | 232              | 3 %                     |
| Interest income   | (18 )              | (17 )            | 6 %                     | (36 )            | (37 )            | (3 )%                   |
| Other (income) expense, net   | (88 )              | 170              | NM                      | (45 )            | 195              | NM                      |
| Income from Continuing Operations Before Income Taxes                                       | 1,868              | 1,407            | 33 %                    | 1,954            | 1,001            | 95 %                    |
| Income tax provision  | 505                | 350              | 44 %                    | 566              | 213              | NM                      |
| Income from Continuing Operations Including Portion Attributable to Noncontrolling Interest | 1,363              | 1,057            | 29 %                    | 1,388            | 788              | 76 %                    |
| Discontinued Operations:  |                    |                  |                         |                  |                  |                         |
| Income from operations of discontinued business   | 5                  | 4                | 25 %                    | 21               | 24               | (13 )%                  |
| Income tax provision  | 2                  | 1                | NM                      | 8                | 9                | (11 )%                  |
| Income from Discontinued Operations   | 3                  | 3                | — %                     | 13               | 15               | (13 )%                  |
| Net Income  | \$1,366            | \$1,060          | 29 %                    | \$1,401          | \$803            | 74 %                    |
| Less: Net (loss) income attributable to noncontrolling interest                             | (2 )               | (3 )             | NM                      | 4                | (7 )             | NM                      |
| Net Income Attributable to Monsanto Company   | \$1,368            | \$1,063          | 29 %                    | \$1,397          | \$810            | 72 %                    |
| Diluted Earnings per Share Attributable to Monsanto Company:                                |                    |                  |                         |                  |                  |                         |
| Income from continuing operations   | \$3.08             | \$2.40           | 28 %                    | \$3.13           | \$1.76           | 78 %                    |
| Income from discontinued operations   | 0.01               | 0.01             | — %                     | 0.03             | 0.04             | (25 )%                  |
| Net Income Attributable to Monsanto Company   | \$3.09             | \$2.41           | 28 %                    | \$3.16           | \$1.80           | 76 %                    |
| NM = Not Meaningful   |                    |                  |                         |                  |                  |                         |
| Effective Tax Rate  | 27                 | %25              | %                       | 29               | %21              | %                       |
| Comparison as a Percent of Net Sales:   |                    |                  |                         |                  |                  |                         |
| Cost of goods sold  | 42                 | %43              | %                       | 45               | %48              | %                       |
| Gross profit  | 58                 | %57              | %                       | 55               | %52              | %                       |
| Selling, general and administrative expenses  | 13                 | %13              | %                       | 16               | %17              | %                       |
| Research and development expenses   | 8                  | %8               | %                       | 10               | %10              | %                       |
| Total operating expenses  | 21                 | %21              | %                       | 27               | %31              | %                       |
| Income from continuing operations before income taxes                                       | 37                 | %31              | %                       | 25               | %15              | %                       |
| Net income attributable to Monsanto Company   | 27                 | %23              | %                       | 18               | %12              | %                       |



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## Second Quarter Fiscal Year 2017

The following explanations discuss the significant components of our results of operations that affected the quarter-to-quarter comparison of our second quarter income from continuing operations:

Net sales increased \$542 million, or 12 percent, in the second quarter of fiscal 2017 from the same quarter a year ago. Our Seeds and Genomics segment net sales increased \$369 million, and our Agricultural Productivity segment net sales increased \$173 million in the three-month comparison.

The following table presents the percentage increase/(decrease) in second quarter of fiscal 2017 worldwide net sales by segment compared with net sales in the prior year quarter, including the effects of volume, price and currency:

|                                   | Second Quarter 2017      |       |          |       |
|-----------------------------------|--------------------------|-------|----------|-------|
|                                   | Percentage Change in Net |       |          |       |
|                                   | Sales vs. Second Quarter |       |          |       |
|                                   | 2016                     |       |          |       |
|                                   | Volume                   | Price | Currency | Total |
| Seeds and Genomics Segment        | 6%                       | 3%    | 1%       | 10%   |
| Agricultural Productivity Segment | 36%                      | (14)% | 2%       | 24%   |
| Total Monsanto Company            | 10%                      | —%    | 2%       | 12%   |

Cost of goods sold for the total company increased \$188 million, or ten percent, in the three-month comparison. Cost of goods sold as a percent of net sales for the total company decreased one percentage point to 42 percent. Our Seeds and Genomics segment cost of goods sold as a percent of net sales decreased two percentage points to 34 percent, and our Agricultural Productivity segment cost of goods sold as a percent of net sales increased four percentage points to 80 percent.

The following table represents the percentage increase/(decrease) in second quarter of 2017 worldwide cost of goods sold by segment compared with cost of goods sold in the prior year quarter, including the effects of volume, costs and currency:

|                                   | Second Quarter 2017          |                      |          |       |
|-----------------------------------|------------------------------|----------------------|----------|-------|
|                                   | Percentage Change in Cost of |                      |          |       |
|                                   | Goods Sold vs. Second        |                      |          |       |
|                                   | Quarter 2016                 |                      |          |       |
|                                   | Volume                       | Costs <sup>(1)</sup> | Currency | Total |
| Seeds and Genomics Segment        | 7%                           | (7)%                 | 1%       | 1%    |
| Agricultural Productivity Segment | 37%                          | (9)%                 | 3%       | 31%   |
| Total Monsanto Company            | 16%                          | (8)%                 | 2%       | 10%   |

<sup>(1)</sup> Seeds and Genomics and Agricultural Productivity segments include \$5 million and \$1 million of restructuring charges related to discontinued products during the second quarter of fiscal 2017, respectively. See Item 1 — Financial Statements — Note 3 — Restructuring — for further information.

Gross profit increased \$354 million in the three-month comparison. Gross profit as a percent of net sales for the total company increased one percentage point to 58 percent in the second quarter of fiscal 2017. Our Seeds and Genomics segment gross profit as a percent of net sales increased two percentage points to 66 percent, and our Agricultural Productivity segment gross profit as a percent of net sales decreased four percentage points to 20 percent.

For a detailed discussion of the factors affecting net sales, cost of goods sold and gross profit comparison, see the “Seeds and Genomics Segment” and the “Agricultural Productivity Segment” sections.

Operating expenses increased \$153 million in the second quarter of fiscal 2017 compared to the prior year comparable quarter. The increase in operating expenses is due to an increase in selling, general and administrative expenses (“SG&A”) and research and development expenses (“R&D”) quarter over quarter.

In the second quarter of fiscal 2017, pending Bayer related transaction costs were \$27 million.

In the second quarter of fiscal 2017, SG&A expenses increased \$71 million, and R&D expenses increased \$41 million primarily due to the increased accrual rate for employee incentive awards due to improved business performance.

As a percent of net sales, SG&A expenses remained consistent at 13 percent, and R&D expenses remained consistent at eight percent for the second quarter of fiscal 2017 compared to the prior year quarter.

Other (income) expense — net was \$88 million of income in the second quarter of fiscal 2017, a \$258 million change from expense of \$170 million in the second quarter of fiscal 2016. The fluctuation was primarily due to the absence of foreign currency losses of approximately \$181 million largely related to the Argentine peso in the prior year and a gain of approximately \$83 million recorded on the sale of our European-based silthiofam seed-treatment chemical business (the “Latitude business”) in the second quarter of fiscal 2017.

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Income tax provision was \$505 million in the second quarter of fiscal 2017, an increase of \$155 million from the prior year quarter, primarily as a result of higher pretax income and higher discrete tax expense. The effective tax rate increased to 27 percent from 25 percent in the second quarter of fiscal 2016, primarily due to the non-recurrence of fiscal 2016 tax benefits from adjustments to the company's U.S. tax returns.

## First Half of Fiscal Year 2017

The following explanations discuss the significant components of our results of operations that affected the six-month comparison of our first half of fiscal years 2017 and 2016 income from continuing operations:

Net sales increased \$973 million, or 14 percent in the first half of fiscal 2017 from the same period a year ago. Our Seeds and Genomics segment net sales increased \$818 million, and our Agricultural Productivity segment net sales increased \$155 million.

The following table presents the percentage increase/(decrease) in the first half of fiscal 2017 worldwide net sales by segment compared with net sales in the prior year first half, including the effects of volume, price and currency:

|                                   | First Half 2017 Percentage<br>Change in Net Sales vs. First<br>Half 2016 |       |          |       |
|-----------------------------------|--|-------|----------|-------|
|                                   | Volume   | Price | Currency | Total |
| Seeds and Genomics Segment        | 7%   | 6%    | 3%       | 16%   |
| Agricultural Productivity Segment | 21%  | (14)% | 3%       | 10%   |
| Total Monsanto Company            | 10%  | 1%    | 3%       | 14%   |

Cost of goods sold increased \$261 million in the first half of fiscal 2017 from the same period a year ago. Cost of goods sold as a percent of net sales for the total company decreased three percentage points to 45 percent. Our Seeds and Genomics segment cost of goods sold as a percent of net sales decreased four percentage points to 35 percent, and our Agricultural Productivity segment cost of goods sold as a percent of net sales increased five percentage points to 83 percent.

The following table represents the percentage increase/(decrease) in the first half of fiscal 2017 worldwide cost of goods sold by segment compared with cost of goods sold in the first half of prior year, including the effects of volume, costs and currency:

|                                   | First Half 2017 Percentage<br>Change in Cost of Goods Sold<br>vs. First Half 2016 |                      |          |       |
|-----------------------------------|---|----------------------|----------|-------|
|                                   | Volume  | Costs <sup>(1)</sup> | Currency | Total |
| Seeds and Genomics Segment        | 8%  | (7)%                 | 2%       | 3%    |
| Agricultural Productivity Segment | 21%   | (7)%                 | 3%       | 17%   |
| Total Monsanto Company            | 12%   | (7)%                 | 3%       | 8%    |

<sup>(1)</sup> Seeds and Genomics segment includes \$6 million and \$52 million of restructuring charges related to discontinued products during the first half of fiscal 2017 and 2016, respectively. Agricultural Productivity segment includes \$1 million of restructuring charges related to discontinued products during the first half of fiscal 2017. See Item 1 — Financial Statements — Note 3 — Restructuring — for further information.

Gross profit increased \$712 million in the first half of fiscal 2017 from the same period a year ago. Gross profit as a percent of net sales for the total company increased three percentage points to 55 percent in the first half of fiscal 2017. Our Seeds and Genomics segment gross profit as a percent of net sales increased four percentage points to 65 percent, and our Agricultural Productivity segment gross profit as a percent of net sales decreased five percentage points to 17 percent in the first half of fiscal 2017.

For a detailed discussion of the factors affecting net sales, cost of goods sold and gross profit comparison, see the “Seeds and Genomics Segment” and the “Agricultural Productivity Segment” sections.

Operating expenses decreased \$8 million in the first half of fiscal 2017 from the prior year comparable period. In the six-month comparison, SG&A expenses increased \$113 million primarily due to currency impact, higher commission expenses in South America due to strong results and the increased accrual rate for employee incentive awards. R&D

expenses increased \$47 million, primarily due to increased spend related to the Climate Corporation and the increased accrual rate for employee incentive awards. As a percent of net sales, SG&A expenses decreased one percentage point to 16 percent, and R&D expenses remained consistent at ten percent. Restructuring charges fluctuated \$288 million to a net reversal of expense of \$13 million in the first half of fiscal 2017 compared to \$275 million of expense in the first half of fiscal 2016 due to the timing of expense



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recognition related to workforce reductions and changes in the related estimates. See discussion of the 2015 Restructuring Plan in Item 1 — Financial Statements — Note 3 — Restructuring.

Other (income) expense — net decreased \$240 million in the first half of fiscal 2017. The fluctuation was primarily due to the absence of foreign currency losses of approximately \$181 million largely related to the Argentine peso in the prior year, a gain of approximately \$83 million recorded on the sale of our Latitude business in the current year, partially offset by a loss of \$37 million that was reclassified into earnings as a result of the discontinuance of an interest rate hedge.

Income tax provision was \$566 million in the first half of fiscal 2017, an increase of \$353 million from the prior year comparable period, primarily as a result of higher pretax income and higher discrete tax expense. The effective tax rate increased to 29 percent from 21 percent in the prior year comparable period, primarily due to discrete adjustments in fiscal 2017 for a valuation allowance in Argentina and the non-recurrence of fiscal 2016 tax benefits from adjustments to the company's U.S. tax returns.

## SEEDS AND GENOMICS SEGMENT

| (Dollars in millions)            | Three Months Ended |               |                      | Six Months Ended |               |                      |
|----------------------------------|--------------------|---------------|----------------------|------------------|---------------|----------------------|
|                                  | Feb. 28, 2017      | Feb. 29, 2016 | Increase/ (Decrease) | Feb. 28, 2017    | Feb. 29, 2016 | Increase/ (Decrease) |
| Net Sales                        |                    |               |                      |                  |               |                      |
| Corn seed and traits             | \$2,902            | \$2,687       | 8%                   | \$3,851          | \$3,432       | 12%                  |
| Soybean seed and traits          | 862                | 782           | 10%                  | 1,462            | 1,220         | 20%                  |
| Cotton seed and traits           | 108                | 37            | 192%                 | 224              | 85            | 164%                 |
| Vegetable seeds                  | 193                | 192           | 1%                   | 324              | 330           | (2)%                 |
| All other crops seeds and traits | 121                | 119           | 2%                   | 173              | 149           | 16%                  |
| Total Net Sales                  | \$4,186            | \$3,817       | 10%                  | \$6,034          | \$5,216       | 16%                  |
| Gross Profit                     |                    |               |                      |                  |               |                      |
| Corn seed and traits             | \$1,932            | \$1,721       | 12%                  | \$2,467          | \$2,087       | 18%                  |
| Soybean seed and traits          | 628                | 527           | 19%                  | 1,079            | 829           | 30%                  |
| Cotton seed and traits           | 77                 | 18            | 328%                 | 150              | 43            | 249%                 |
| Vegetable seeds                  | 99                 | 96            | 3%                   | 168              | 136           | 24%                  |
| All other crops seeds and traits | 41                 | 66            | (38)%                | 53               | 61            | (13)%                |
| Total Gross Profit               | \$2,777            | \$2,428       | 14%                  | \$3,917          | \$3,156       | 24%                  |
| EBIT <sup>(1)</sup>              | \$1,839            | \$1,497       | 23%                  | \$2,038          | \$1,164       | 75%                  |

EBIT is defined as earnings (loss) before interest and taxes. Interest and taxes are recorded on a total company (1) basis. We do not record these items at the segment level. See Item 1 — Financial Statements — Note 19 — Segment Information and the “Overview — Non-GAAP Financial Measures” section of MD&A for further details.

## Seeds and Genomics Financial Performance — Second Quarter Fiscal Year 2017

Net sales for the Seeds and Genomics segment increased \$369 million in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016. The net sales increase of \$215 million in corn seed and traits was primarily driven by higher average net selling prices in South America and higher volume due to timing of grower demand in Europe. The net sales increase of \$80 million in soybean seed and traits was primarily driven by increased Roundup Ready 2 XTEND penetration in the United States. The net sales increase of \$71 million in cotton seed and traits was primarily driven by a timing benefit in the United States due to a change in our customer contracts.

Cost of goods sold in the Seeds and Genomics segment primarily represents field growing, plant processing and distribution costs. Cost of goods sold increased \$20 million, or one percent, to \$1,409 million in the second quarter of fiscal 2017 compared to \$1,389 million in the second quarter of fiscal 2016. The increase was primarily the result of higher sales volumes in corn seed and traits and cotton seed and traits as noted in the net sales discussion.

Gross profit for the Seeds and Genomics segment increased \$349 million in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016. The increase in gross profit was primarily due to higher average net

selling prices and more normalized production plans in corn seed and traits coupled with increased volume in corn seed and traits and cotton seed and traits. In addition, soybean seed and traits gross profit increased due to Roundup Ready 2 XTEND penetration as noted in the net sales discussion and lower Roundup Ready 2 XTEND launch costs.

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Gross profit as a percent of net sales for the segment increased two percentage points to 66 percent in the second quarter of fiscal 2017 compared to 64 percent in the second quarter of fiscal 2016.

**Seeds and Genomics Financial Performance — First Half Fiscal Year 2017**

Net sales for the Seeds and Genomics segment increased \$818 million in the first half of fiscal 2017 compared to the first half of fiscal 2016. The net sales increase of \$419 million in corn seed and traits was primarily driven by higher volume due to timing of grower demand, higher average net selling prices in South America and favorable currency impacts in Brazil. The net sales increase of \$242 million in soybean seed and traits was primarily driven by increased Intacta RR2 PRO penetration in Brazil and Argentina, increased Roundup Ready 2 XTEND penetration in the United States and favorable currency impacts in Brazil. The net sales increase of \$139 million in cotton seed and traits was primarily driven by a timing benefit in the United States resulting from a change in our customers contracts and in Australia from increased planted area.

Cost of goods sold in the Seeds and Genomics segment primarily represents field growing, plant processing and distribution costs. Cost of goods sold increased \$57 million, or three percent, to \$2,117 million in the first half of fiscal 2017 compared to \$2,060 million in the first half of fiscal 2016. The increase was primarily the result of higher sales volumes in corn seed and traits and cotton seed and traits as noted in the net sales discussion.

Gross profit for the Seeds and Genomics segment increased \$761 million in the first half of fiscal 2017 compared to the first half of fiscal 2016. The increase in gross profit was primarily due to increased volume in corn seed and traits and cotton seed and traits coupled with higher average net selling prices in South America and more normalized production plans in corn seed and traits and increased Intacta RR2 PRO and Roundup Ready 2 XTEND penetration in soybean seed and traits as noted in the net sales discussion. In addition, favorable currency impacts in Brazil also increased gross profit compared to the first half of fiscal 2016.

Gross profit as a percent of net sales for the segment increased four percentage points to 65 percent in the first half of fiscal 2017 compared to 61 percent in the first half of fiscal 2016.

**AGRICULTURAL PRODUCTIVITY SEGMENT**

|                           | Three Months Ended |           | Six Months Ended |           |                      |                      |
|---------------------------|--------------------|-----------|------------------|-----------|----------------------|----------------------|
|                           | Feb. 2017          | Feb. 2016 | Feb. 2017        | Feb. 2016 | Increase/ (Decrease) |                      |
| (Dollars in millions)     | 28,                | 29,       | Increase         | 28,       | 29,                  | Increase/ (Decrease) |
|                           | 2017               | 2016      |                  | 2017      | 2016                 |                      |
| <b>Net Sales</b>          |                    |           |                  |           |                      |                      |
| Agricultural productivity | \$888              | \$715     | 24 %             | \$1,690   | \$1,535              | 10 %                 |
| Total Net Sales           | \$888              | \$715     | 24 %             | \$1,690   | \$1,535              | 10 %                 |
| <b>Gross Profit</b>       |                    |           |                  |           |                      |                      |
| Agricultural productivity | \$175              | \$170     | 3 %              | \$294     | \$343                | (14) %               |
| Total Gross Profit        | \$175              | \$170     | 3 %              | \$294     | \$343                | (14) %               |
| EBIT <sup>(1)</sup>       | \$119              | \$7       | NM               | \$132     | \$66                 | 100 %                |

EBIT is defined as earnings (loss) before interest and taxes. Interest and taxes are recorded on a total company (1) basis. We do not record these items at the segment level. See Item 1 — Financial Statements — Note 19 — Segment Information — and the “Overview — Non-GAAP Financial Measures” section of MD&A for further details.

**Agricultural Productivity Financial Performance — Second Quarter Fiscal Year 2017**

Net sales in our Agricultural Productivity segment increased by \$173 million in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 primarily due to increased volume of Roundup and other glyphosate-based herbicides globally and first time XtendiMax with VaporGrip Technology dicamba-based herbicide revenue in the United States. This is partially offset by lower average net selling price of Roundup and other glyphosate-based herbicides.

Cost of goods sold in the Agricultural Productivity segment primarily represents material, conversion and distribution costs. Cost of goods sold increased \$168 million, or 31 percent, in the second quarter of fiscal 2017 to \$713 million

compared to \$545 million in the second quarter of fiscal 2016. Roundup and other glyphosate-based herbicides cost of goods sold increased as a result of higher sales volumes when compared to the second quarter of fiscal 2016. This is partially offset by lower manufacturing costs due mainly to lower raw material costs resulting from sales mix and lower dicamba-based herbicide project expenses when compared to the second quarter of fiscal 2016.

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The net sales and cost of goods sold discussed above resulted in slightly higher gross profit of \$5 million in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016. Gross profit as a percent of net sales for the Agricultural Productivity segment decreased four percentage points to 20 percent in the second quarter of fiscal 2017 compared to 24 percent in the second quarter of fiscal 2016. This decrease is primarily due to lower average net selling price as noted in the net sales discussion partially offset by first time XtendiMax with VaporGrip Technology dicamba-based herbicide revenue and lower dicamba-based herbicide project expense.

**Agricultural Productivity Financial Performance — First Half Fiscal Year 2017**

Net sales in our Agricultural Productivity segment increased by \$155 million in the first half of fiscal 2017 compared to the first half of fiscal 2016 primarily due to increased volume of Roundup and other glyphosate-based herbicides globally, first time XtendiMax with VaporGrip Technology dicamba-based herbicide revenue and favorable currency impact in Brazil. This is partially offset by lower average net selling price of Roundup and other glyphosate-based herbicides.

Cost of goods sold in the Agricultural Productivity segment primarily represents material, conversion and distribution costs. Cost of goods sold increased \$204 million, or 17 percent, in the first half of fiscal 2017 to \$1,396 million compared to \$1,192 million in the first half of fiscal 2016. Cost of goods sold increased as a result of higher sales volumes when compared to the first half of fiscal 2016 and currency impact in Brazil. This is partially offset by lower manufacturing costs due mainly to lower raw material costs resulting from sales mix and lower dicamba-based herbicide project expenses when compared to the first half of fiscal 2016.

The net sales and cost of goods sold discussed above resulted in \$49 million lower gross profit in the first half of fiscal 2017 compared to the first half of fiscal 2016. Gross profit as a percent of net sales for the Agricultural Productivity segment decreased five percentage points to 17 percent in the first half of fiscal 2017 compared to 22 percent in the first half of fiscal 2016. This decrease is primarily due to the lower average net selling price as noted in the net sales discussion partially offset by lower raw material prices, lower dicamba-based herbicide project expense, higher volumes globally and first time XtendiMax with VaporGrip Technology dicamba-based herbicide revenue.

**RESTRUCTURING**

On Oct. 6, 2015, the company approved actions to realign resources to increase productivity, enhance competitiveness by delivering cost improvements and support long-term growth. On Jan. 5, 2016, the company approved additional actions which, together with the Oct. 6, 2015 actions, comprise the 2015 Restructuring Plan. Actions include streamlining and reprioritizing some commercial, enabling, supply chain and research and development efforts. Cumulative pretax charges related to the 2015 Restructuring Plan are estimated to be approximately \$1 billion. Implementation of the 2015 Restructuring Plan is expected to be completed by the end of fiscal year 2018, and substantially all of the cash payments are expected to be made by the end of fiscal year 2018. These pretax charges are currently estimated to be comprised of the following categories: \$375 million to \$400 million in work force reductions, including severance and related benefits; \$120 million to \$140 million in facility closures/exit costs, including contract termination costs; \$480 million to \$515 million in asset impairments and write-offs related to property, plant and equipment, inventory and goodwill and other assets. These pretax charges are currently estimated to be incurred primarily by the Seeds and Genomics segment.

In the six months ended Feb. 28, 2017, a pretax net reversal of restructuring charges of \$6 million was recorded within the Statement of Consolidated Operations, of which \$7 million of expense and net reversal of \$13 million of previously recognized expense were included in cost of goods sold and restructuring charges, respectively. The reversal of previously recognized expense was due to changes in estimates related to work force reductions. In the six months ended Feb. 29, 2016, pretax restructuring charges of \$327 million were recorded within the Statement of Consolidated Operations, of which \$52 million and \$275 million were included in cost of goods sold and restructuring charges, respectively. For additional information on the 2015 Restructuring Plan, see Item 1 — Financial Statements — Note 3 — Restructuring.



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## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

## Working Capital and Financial Condition

|   | As of         |               |               |
|---|---------------|---------------|---------------|
|   | Feb. 28, 2017 | Feb. 29, 2016 | Aug. 31, 2016 |
| (Dollars in millions, except current ratio)                                 |               |               |               |
| Cash and Cash Equivalents <sup>(1)</sup>                                    | \$2,281       | \$1,050       | \$1,676       |
| Trade Receivables, Net <sup>(1)</sup>                                       | 2,605         | 1,828         | 1,926         |
| Inventory, Net  | 3,621         | 3,704         | 3,241         |
| Other Current Assets <sup>(2)</sup>   | 1,375         | 1,901         | 1,314         |
| Total Current Assets  | \$9,882       | \$8,483       | \$8,157       |
| Short-Term Debt, Including Current Portion of Long-Term Debt <sup>(1)</sup> | \$1,611       | \$1,083       | \$1,587       |
| Accounts Payable <sup>(1)</sup>   | 785           | 635           | 1,006         |
| Accrued Liabilities <sup>(1)(3)</sup>                                       | 4,893         | 4,221         | 4,136         |
| Total Current Liabilities   | \$7,289       | \$5,939       | \$6,729       |
| Working Capital <sup>(4)</sup>  | \$2,593       | \$2,544       | \$1,428       |
| Current Ratio <sup>(4)</sup>  | 1.36:1        | 1.43:1        | 1.21:1        |

May include restrictions as a result of variable interest entities. See the Statements of Consolidated Financial

(1) Position and Item 1 — Financial Statements — Note 5 — Variable Interest Entities and Investments — for more information.

Includes short-term investments, miscellaneous receivables, assets held for sale and other current assets at Feb. 28, 2017, and Aug. 31, 2016. Includes short-term investments, miscellaneous receivables, other current assets and current deferred tax assets at Feb. 29, 2016.

Includes income taxes payable, accrued compensation and benefits, accrued marketing programs, deferred revenues, grower production accruals, dividends payable, customer payable, miscellaneous short-term accruals and restructuring reserves.

(4) Working capital is total current assets less total current liabilities; current ratio represents total current assets divided by total current liabilities.

Feb. 28, 2017, compared with Aug. 31, 2016: Working capital increased \$1,165 million, or 82 percent, between Aug. 31, 2016, and Feb. 28, 2017, primarily because of the following factors:

Cash and cash equivalents increased \$605 million between respective periods primarily due to operating cash inflows of \$1,537 million primarily related to increased profitability, partially offset by capital expenditures and payments of dividends.

Trade receivables, net increased \$679 million between respective periods primarily due to increased global revenues due to the seasonality of our business.

Inventory increased \$380 million between respective periods primarily due to higher corn production plans in the United States.

Accounts payable decreased \$221 million between respective periods primarily due to timing of payments.

These increases to working capital between Feb. 28, 2017, and Aug. 31, 2016, were partially offset by an increase in accrued liabilities of \$757 million due to the following fluctuations:

Income taxes payable increased \$266 million primarily due to the seasonality of our U.S. business and the timing of tax payments.

Deferred revenues increased \$839 million due to customer prepayments in the United States that occurred in the first half of fiscal 2017.

Grower production accruals increased \$150 million primarily due to timing of payments.

The increases in accrued liabilities were partially offset by the following:

Accrued marketing programs decreased \$87 million between respective periods primarily due to the timing of payments in the United States.

Customer payable decreased \$76 million due to North American customer refunds paid in the first half of fiscal year 2017.

Restructuring reserves decreased \$119 million as a result of payments made under the 2015 Restructuring Plan and changes in estimates related to work force reductions.



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Miscellaneous short-term accruals decreased \$241 million primarily due to a payment related to the PCB settlement of \$280 million as described in Item 1 — Financial Statements — Note 18 — Commitments and Contingencies.

Feb. 28, 2017, compared with Feb. 29, 2016: Working capital increased \$49 million between Feb. 29, 2016, and Feb. 28, 2017, primarily because of the following factors:

- Cash and cash equivalents increased \$1,231 million between respective periods primarily due to cash from operating activities and debt proceeds offset by dividend payments.

- Trade receivables, net increased \$777 million between respective periods primarily due to increased revenues and currency impact in Brazil.

This increase to working capital between Feb. 28, 2017, and Feb. 29, 2016, was offset by the following factors:

- Inventory decreased \$83 million between respective periods primarily due to reductions in corn and agricultural productivity production plans coupled with increased sales in the current year.

- Other current assets decreased \$526 million between respective periods primarily due to a deferred tax assets decrease of \$760 million between respective periods due to the adoption of Accounting Standards Update 2015-17 “Balance Sheet Classification of Deferred Taxes” during the third quarter of fiscal 2016, partially offset by an increase in assets held for sale of \$91 million due to the reclassification of the packaging materials from other assets to assets held for sale.

- Short-term debt, including the current portion of long-term debt, increased \$528 million between respective periods primarily due to increased commercial paper borrowings, the reclassification of the delayed draw term loan facility and other debt from long-term to short-term and payments of Senior Notes.

- Accounts payable increased \$150 million between respective periods primarily due to timing of payments and increased business results during fiscal year 2017.

- Accrued liabilities increased \$672 million between respective periods primarily due to accrued marketing programs which increased \$344 million primarily due to increased revenues in the United States and higher Brazil accruals due to higher Intacta RR2 PRO revenues. The increases in accrued liabilities were partially offset by a decrease in the restructuring reserves of \$135 million as a result of payments made under the 2015 Restructuring Plan and changes in estimates related to work force reductions.

Customer Financing Programs: We participate in various customer financing programs in an effort to reduce our receivables risk and to reduce our reliance on commercial paper borrowings. As of Feb. 28, 2017, the programs had \$52 million in outstanding balances, and we received \$126 million of proceeds during the first six months of fiscal 2017 under these programs. Our future maximum payout under the programs, including our responsibility for our guarantees with lenders, was \$97 million as of Feb. 28, 2017. See Item 1 — Financial Statements — Note 4 — Customer Financing Programs — for further discussion of these programs.

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## Cash Flow

| (Dollars in millions)  | Six Months<br>Ended |                  |
|--|---------------------|------------------|
|  | Feb. 28,<br>2017    | Feb. 29,<br>2016 |
| Net Cash Provided by Operating Activities                    | \$ 1,537            | \$ 1,389         |
| Net Cash Required by Investing Activities                    | (438 )              | (483 )           |
| Net Cash Required by Financing Activities                    | (494 )              | (3,502 )         |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | —                   | (55 )            |
| Net Increase (Decrease) in Cash and Cash Equivalents         | 605                 | (2,651 )         |

| (Dollars in millions)                     | Six Months<br>Ended |                  |
|---|---------------------|------------------|
|   | Feb. 28,<br>2017    | Feb. 29,<br>2016 |
| Net Cash Provided by Operating Activities | \$ 1,537            | \$ 1,389         |
| Capital Expenditures                      | (543 )              | (489 )           |
| Free Cash Flow <sup>(1)</sup>             | 994                 | 900              |

(1) Free cash flow represents the total of net cash provided or required by operating activities less capital expenditures (see the “Overview - Non-GAAP Financial Measures” section of MD&A for a further discussion).

Operating: The increase in cash provided by operating activities in the first half of fiscal 2017 compared to the first half of fiscal 2016 was primarily due to the following items:

• Increased net income compared to prior year, and

• An increase in taxes payable due to timing of tax payments, an increase in employee incentives, an increase in accounts payable due to timing and an increase in market funding offset by cash payments of \$275 million related to the PCB settlement described in Item 1 — Financial Statements — Note 18 — Commitments and Contingencies.

These increases in cash flow were partially offset by the following:

• An increase in trade receivables, net primarily resulting from increased revenues, and

• An increase in payments related to the 2015 Restructuring Plan.

Investing: Cash required by investing activities in the first half of fiscal 2017 compared to the first half of fiscal 2016 was consistent year over year.

Financing: The decrease in cash required by financing activities in the first half of fiscal 2017 compared to the first half of fiscal 2016 was primarily due to the cash outflow in the first half of 2016 related to the treasury share purchases that did not occur in fiscal 2017.

Capital Expenditures: Capital expenditures increased in the first half of fiscal 2017 compared to the first half of fiscal 2016 primarily due to construction of a dicamba-based herbicide manufacturing facility in Luling, Louisiana.

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## MONSANTO COMPANY SECOND QUARTER 2017 FORM 10-Q

## Capital Resources and Liquidity

| (Dollars in millions, except debt-to-capital ratio) | As of            |                  | As of            |   |
|---|------------------|------------------|------------------|---|
|   | Feb. 28,<br>2017 | Feb. 29,<br>2016 | Aug. 31,<br>2016 |   |
| Short-Term Debt                                     | \$1,611          | \$1,083          | \$1,587          |   |
| Long-Term Debt                                      | 7,560            | 7,945            | 7,453            |   |
| Total Monsanto Company Shareowners' Equity          | 5,540            | 4,152            | 4,534            |   |
| Debt-to-Capital Ratio <sup>(1)</sup>                | 62               | %68              | %67              | % |

(1) Debt-to-Capital ratio represents short-term and long-term debt divided by total Monsanto Company shareowners' equity, short-term and long-term debt.

A major source of our liquidity is operating cash flows, which can be derived from net income. This cash-generating capability and access to long-term investment grade debt financing markets provides us with the financial flexibility we need to meet operating, investing and financing needs. We believe our sources of liquidity will be sufficient to sustain operations and to finance anticipated investments. To the extent that cash provided by operating activities is not sufficient to fund our cash needs, we believe short-term commercial paper borrowings can be used to finance these requirements. We had commercial paper borrowings of \$554 million outstanding as of Feb. 28, 2017.

Share Repurchases: On Oct. 9, 2015, we entered into uncollared ASR agreements with each of Citibank, N.A. and JPMorgan Chase Bank, N.A., which settled in January 2016. In accordance with the terms of the agreements, an additional 3.8 million shares were received upon final settlement in fiscal 2016 for a total of 32.2 million shares of Monsanto common stock repurchased at an aggregate cost to us of \$3.0 billion. The ASR agreements were entered into pursuant to the share repurchase authorization announced June 2014.

Debt and Other Credit Arrangements: In April 2016, Monsanto filed a shelf registration with the SEC ("2016 shelf registration") that allows the company to issue a maximum aggregate amount of \$6 billion of debt, equity and hybrid offerings. The 2016 shelf registration expires in April 2019.

We have a \$3 billion credit facility agreement with a group of banks that provides a senior unsecured revolving credit facility through Mar. 27, 2020. As of Feb. 28, 2017, we did not have any borrowings under this credit facility, and we were in compliance with all debt covenants.

In October 2016, we closed a \$1 billion delayed draw term loan facility that matures the earlier of October 2019 or the consummation of the Bayer merger. Borrowings under the facility were \$500 million as of Feb. 28, 2017. Proceeds were used for general corporate purposes.

As of Feb. 28, 2017, our debt-to-capital ratio was 62 percent compared with 67 percent at Aug. 31, 2016, and 68 percent at Feb. 29, 2016. The five percentage point decrease from Aug. 31, 2016, was primarily due to an increase in shareowners' equity resulting from earnings during fiscal 2017 slightly offset by dividends declared. The six percentage point decrease from Feb. 29, 2016, was primarily driven by an increase in shareowners' equity resulting from earnings partially offset by dividends declared and increased commercial paper outstanding at Feb. 28, 2017, compared to Feb. 29, 2016.

We held cash and cash equivalents and short-term investments of \$2,291 million and \$1,736 million as of Feb. 28, 2017, and Aug. 31, 2016, respectively, of which \$1,933 million and \$1,629 million was held by foreign entities, respectively. Our intent is to indefinitely reinvest approximately \$4.6 billion of the \$4.6 billion of undistributed earnings of our foreign operations that existed as of Aug. 31, 2016. It is not practicable to estimate the income tax liability that might be incurred if such indefinitely reinvested earnings were remitted to the United States.

Dividends: In the first half of fiscal year 2017, we declared the following dividends:

| Quarter Ending | Declaration Date | Dividend | Payment Date   | To Shareowners of Record as of: |
|----------------|------------------|----------|----------------|---------------------------------|
| Feb. 29, 2017  | Jan. 27, 2017    | 54 cents | April 28, 2017 | April 7, 2017                   |
| Feb. 29, 2017  | Dec. 5, 2016     | 54 cents | Jan. 27, 2017  | Jan. 6, 2017                    |

Capital Expenditures: We expect fiscal 2017 cash required by investing to be \$1.0 to \$1.2 billion, with the capital expenditures component allocated towards both the Seeds and Genomics segment and the Agricultural Productivity segment. Capital expenditures within the Agricultural Productivity segment include expenditures to construct a

dicamba-based herbicide manufacturing facility in Luling, Louisiana.

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**Pension Contributions:** As of Feb. 28, 2017, we have contributed \$15 million to our U.S. qualified plan. Based on the funded status of our plan, we are not required to make any contributions. However, we expect to contribute an additional \$45 million during the remainder of fiscal 2017 for a total of \$60 million for fiscal 2017.

**2016 Disposals:** On Nov. 2, 2015, we signed definitive agreements with Deere & Company (“Deere”) to sell the Precision Planting equipment business and to enable exclusive third-party near real-time data connectivity between certain John Deere farm equipment and the Climate FieldView platform. Deere, based in Moline, IL, would acquire Precision Planting, while we retain the digital agriculture portfolio that has been integrated into the Climate FieldView platform. The agreements will provide customers with the option to share their agronomic data between the John Deere Operations Center and the Climate FieldView platform and execute agronomic prescriptions with John Deere equipment. In August 2016, the U.S. Department of Justice filed a lawsuit to block Deere’s acquisition of the Precision Planting equipment business, which Deere is contesting. As a result of this development, the closing date for this transaction is uncertain.

In the second quarter of fiscal 2017, we divested our Latitude business previously reported as part of the Agricultural Productivity segment for approximately \$140 million in cash, subject to customary working capital adjustments. Approximately \$85 million, less the carrying amount of assets sold of approximately \$2 million, was recognized within other (income) expense, net in the Statement of Consolidated Operations. The recognition of the remaining \$55 million is contingent on silthiofam re-registration within the European Union.

**2017 Contractual Obligations:** There have been no significant changes to the contractual obligations table as disclosed in our Annual Report on Form 10-K for the year ended Aug. 31, 2016.

**Off-Balance Sheet Arrangements**

Under our Separation Agreement with Pharmacia, we are required to indemnify Pharmacia for certain matters, such as environmental remediation obligations and litigation. To the extent we are currently managing any such matters, we evaluate them in the course of managing our own potential liabilities and establish reserves as appropriate. However, additional matters may arise in the future, and we may manage, settle or pay judgments or damages with respect to those matters in order to mitigate contingent liability and protect Pharmacia and Monsanto. See Item 1 — Financial Statements — Note 18 — Commitments and Contingencies and Part II — Item 1 — Legal Proceedings — for further information. We have entered into various customer financing programs which are accounted for in accordance with the Transfers and Servicing topic of the ASC. See Item 1 — Financial Statements — Note 4 — Customer Financing Programs — for further information.

We are in the process of making a significant expansion of our Chesterfield, Missouri facility. In December 2013, we executed the first of a series of incentive agreements with the County of St. Louis, Missouri. Under these agreements we have transferred our Chesterfield, Missouri facility to St. Louis County and received Industrial Revenue Bonds in the amount of up to \$470 million, which enables us to reduce our cost of constructing and operating the expansion by reducing certain state and local tax expenditures. We immediately leased the facility from the County of St. Louis and have an option to purchase the facility upon tendering the Industrial Revenue Bonds we received to the County. The payments due to us in relation to the Industrial Revenue Bonds and owed by us in relation to the lease of the facility qualify for the right of offset under ASC 210, Balance Sheet, in our Statements of Consolidated Financial Position. As such, neither the Industrial Revenue Bonds nor the lease obligation are recorded in the Statements of Consolidated Financial Position as an asset or liability, respectively. The Chesterfield facility and the expansion are being treated as being owned by us.

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OUTLOOK

We believe we have achieved an industry-leading position in the areas in which we compete in both of our business segments. However, the outlook for each part of our businesses is quite different. In the Seeds and Genomics segment, our seeds and traits business is expected to expand via our investments in new products. In the Agricultural Productivity segment, we expect to continue to deliver new product formulations and systematic approaches that support our Seeds and Genomics segment.

We believe that our company is positioned to deliver value-added products to growers enabling us to grow our gross profit in the future. We expect to see strong cash flow in the future, and we remain committed to returning value to shareowners through vehicles such as investments that expand the business and dividends. We will remain focused on cost and cash management, both to support the progress we have made in managing our investment in working capital and to realize the full earnings potential of our businesses. We are in the process of executing our plan to reduce operational spending through fiscal year 2018. We plan to continue to seek additional external financing opportunities for our customers as a way to manage receivables for each of our segments. In the United States, we expect to incur higher interest costs as we refinance maturing debt.

Outside of the United States, our businesses will continue to face challenges related to the risks inherent in operating in international markets. We will continue to consider, assess and address these developments and the challenges and issues they place on our businesses. We believe we have taken appropriate measures to manage our credit exposure, which has the potential to affect sales negatively in the near term. In addition, volatility in foreign currency exchange rates may negatively affect our profitability, the book value of our assets outside the United States and our shareowners' equity. We continuously monitor the potential for currency devaluation in Brazil, Argentina, Venezuela and Ukraine, including changes to exchange rate mechanisms or structures, and the potential impact on future periods. Subsequent to recent currency devaluations in Argentina and Venezuela, we continue to monitor the economic situations and the impact of currency volatility on earnings.

Seeds and Genomics

Our capabilities in plant breeding and biotechnology research and development are generating a rich and balanced product pipeline that we expect will drive long-term growth. We plan to continue to invest in the areas of seeds, genomics, biotechnology, digital agriculture and biologicals and to invest in technology arrangements that have the potential to increase the efficiency and effectiveness of our R&D efforts. We believe that our seeds and traits businesses will have near-term growth opportunities through a combination of improved breeding, continued growth of stacked biotech traits and expansion in established and emerging markets.

We expect advanced breeding techniques combined with improved production practices and capital investments will continue to contribute to improved germplasm quality and yields for our seed offerings, leading to increased global demand for both our branded germplasm and our licensed germplasm. Our vegetable seeds business, which has a portfolio focused on 21 crops, continues to develop and deliver new innovative products to our customer base as we continue to focus on our breeding investments and process optimization. We expect to see continued competition in seeds and genomics. We believe we will maintain a competitive advantage because of our global breeding capabilities and our multiple-channel sales approach in the United States for corn and soybean seeds.

Commercialization of second- and third-generation traits and the stacking of multiple traits in corn, soy and cotton are expected to increase penetration in approved markets, particularly as we continue to price our traits in line with the value growers have experienced from their use. We continue to experience an increase in competition in biotechnology as more competitors launch traits in the United States and internationally. Acquisitions may also present mid-to-longer term opportunities to increase penetration of our traits.

Intacta RR2 PRO technology has been fully approved by Brazil, Argentina, Paraguay, Uruguay and their key export markets, and we are currently selling that technology in Brazil, Argentina, Paraguay and Uruguay. In South America, we generally operate using a business model working with growers and grain handlers to collect technology value for soybeans either on the sale of new certified seed or through a point-of-delivery system for seeds that have been saved and replanted. The system has been operating in Brazil for many years, and nearly all of the grain handlers have enrolled in the point-of-delivery system. In Argentina, nearly all of the exporting grain handlers have enrolled in the

point-of-delivery system, and we are enrolling additional local elevators. As previously announced, due to uncertainty raised by actions of the government of Argentina, and while we continue to pursue value capture in Argentina, we have placed a hold on the launch of new soybean traits in that country. We continue to pursue a long-term system that operates with integrity and predictability and will continue to evaluate our soybean business in Argentina. With regard to first generation Roundup Ready soybeans, we have deferred collection of royalties in Brazil until a final decision is reached by the courts on our patent term correction case. The Supreme Court of Brazil has granted certiorari of the case. We do not plan to collect on first generation Roundup Ready soybeans in Argentina.

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Our international traits businesses, in particular, are likely to continue to face unpredictable regulatory environments that may be highly politicized. We operate in volatile, and often difficult, economic and political environments. Longer term, income is expected to grow in South America as farmers choose to plant more of our approved traits in soybeans, corn and cotton. The agricultural economy in Brazil and Argentina could be impacted by global commodity prices, particularly for corn and soybeans. We continue to maintain our strict credit policy, expand our grain-based collection system and focus on cash collection and sales, as part of a continuous effort to manage our risk in Brazil and Argentina against such volatility. India's cotton germplasm and traits business could continue to be significantly impacted by government policies, including controlled pricing and regulatory uncertainties, and we will continue to evaluate our cotton business in India.

**Agricultural Productivity**

Our Agricultural Productivity businesses operate in markets that are competitive. Gross profit and cash flow levels will fluctuate in the future based on global business dynamics including market supply, demand and manufacturing capacity. We expect to maintain our branded prices at a slight premium over generic products, and we believe our Roundup herbicide business will continue to be a sustainable source of cash and gross profit. Our crop protection business focus is to support strategically our Roundup Ready crops through our weed management platform that delivers weed control offerings for farmers. We continue to invest in the growth of our Roundup Ready XTEND crop system, which includes capital expenditures to construct a dicamba manufacturing facility in Luling, Louisiana. In addition, we expect our lawn-and-garden business will continue to be a solid contributor to our Agricultural Productivity segment.

Global glyphosate producers have the capacity to supply the market, but global dynamics including demand, environmental regulation compliance and raw material availability can cause fluctuations in supply and price of those generic products. We expect the fluctuation in global capacity will impact the selling prices and margins of Roundup brands and our third party sourcing opportunities.

**Other Information**

As discussed in Item 1 — Financial Statements — Note 18 — Commitments and Contingencies — and Part II — Item 1 — Legal Proceedings, Monsanto is involved in a number of lawsuits and claims relating to a variety of issues, including lawsuits that relate to intellectual property disputes. We expect that such disputes will continue to occur as the agricultural biotechnology industry evolves. Third parties, including non-governmental organizations, have challenged the validity or enforceability of patents issued to the company regarding our biotechnology products. For additional information related to the outlook for Monsanto, see “Caution Regarding Forward-Looking Statements” at the beginning of this Report on Form 10-Q, Part II — Item 1A — Risk Factors below and Part I — Item 1A — Risk Factors of our Report on Form 10-K for the fiscal year ended Aug. 31, 2016.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

In preparing our consolidated financial statements, we must select and apply various accounting policies. Our most significant policies are described in Part II — Item 8 — Note 2 — Significant Accounting Policies — to the consolidated financial statements contained in our Report on Form 10-K for the fiscal year ended Aug. 31, 2016. In order to apply our accounting policies, we often need to make estimates based on judgments about future events. In making such estimates, we rely on historical experience, market and other conditions, and on assumptions that we believe to be reasonable. However, the estimation process is by its nature uncertain given that estimates depend on events over which we may not have control. If market and other conditions change from those that we anticipate, our financial condition, results of operations or liquidity may be affected materially. In addition, if our assumptions change, we may need to revise our estimates or take other corrective actions, either of which may have a material effect on our financial condition, results of operations or liquidity.

The estimates that have an inherently higher degree of uncertainty and require our most significant judgments are outlined in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Report on Form 10-K for fiscal year ended Aug. 31, 2016. Had we used estimates different from any of those contained in such Report on Form 10-K, our financial condition, profitability or liquidity for the current period could have been materially different from those presented in this Form 10-Q.



ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There are no material changes related to market risk from the disclosures in Monsanto's Report on Form 10-K for the fiscal year ended Aug. 31, 2016.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of Feb. 28, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based upon the evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of Feb. 28, 2017.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the company’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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## PART II—OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

We are involved in various legal proceedings that arise in the ordinary course of our business, as well as proceedings that we have considered to be material under SEC regulations. These include proceedings to which we are party in our own name and proceedings to which our former parent Pharmacia LLC, or its former subsidiary Solutia, Inc., is a party but that we manage and for which we are responsible pursuant to certain indemnification agreements. Information regarding certain material proceedings and the possible effects on our business of proceedings we are defending is disclosed in Part I — Financial Information — Item 1 — Financial Statements — Note 18 — Commitments and Contingencies — under the subheading “Environmental and Litigation Liabilities” and is incorporated by reference herein. Other information with respect to legal proceedings appears in our Report on Form 10-K for the fiscal year ended Aug. 31, 2016.

## ITEM 1A. RISK FACTORS

Please see “Caution Regarding Forward-Looking Statements,” at the beginning of this Report on Form 10-Q and Part I — Item 1A of our Report on Form 10-K for the fiscal year ended Aug. 31, 2016, for information regarding risk factors. There have been no material changes from the risk factors previously disclosed in our Report on Form 10-K.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Issuer Purchases of Equity Securities

The following table is a summary of any purchases of equity securities during the second quarter of fiscal year 2017 by Monsanto and any affiliated purchasers, pursuant to SEC rules.

| Period                              | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share <sup>(1)</sup> | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|-------------------------------------|--------------------------------------|---|--|--|
| December 2016:                      |                                      |   |  |  |
| Dec. 1, 2016, through Dec. 31, 2016 | 30                                   | (2) \$ 105.20                                   | —  | \$ —   |
| January 2017:                       |                                      |   |  |  |
| Jan. 1, 2017, through Jan. 31, 2017 | 30                                   | (2) \$ 108.30                                   | —  | \$ —   |
| February 2017:                      |                                      |   |  |  |
| Feb. 1, 2017, through Feb. 28, 2017 | 30                                   | (2) \$ 113.83                                   | —  | \$ —   |
| Total                               | 90                                   | \$ 109.11                                       | —  | \$ —   |

(1) The average price paid per share is calculated on a trade date basis and excludes commission.

(2) Shares withheld for taxes on restricted stock.

There were no publicly announced repurchase plans outstanding as of Feb. 28, 2017. The Merger Agreement includes restrictions on purchases of shares of the company’s common stock by the company.

## ITEM 5. OTHER INFORMATION

None

## ITEM 6. EXHIBITS

Exhibits: The list of exhibits in the Exhibit Index to this Report is incorporated herein by reference.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MONSANTO COMPANY  
(Registrant)

By: /s/ NICOLE M. RINGENBERG  
Nicole M. Ringenberg  
Vice President and Controller  
(On behalf of the Registrant and as Principal Accounting Officer)  
Date: April 6, 2017

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EXHIBIT INDEX

These Exhibits are numbered in accordance with the Exhibit Table of Item 601 of Regulation S-K.

| Exhibit<br>No. | Description   |
|----------------|---|
| 2              | Omitted   |
| 3              | Omitted   |
| 4              | Omitted   |
| 11             | Omitted — see Note 16 of Notes to Consolidated Financial Statements — Earnings Per Share.   |
| 12             | Computation of Ratio of Earnings to Fixed Charges.  |
| 15             | Omitted   |
| 18             | Omitted   |
| 19             | Omitted   |
| 22             | Omitted   |
| 23             | Omitted   |
| 24             | Omitted   |
| 31.1           | Rule 13a-14(a) Certifications (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by the Chief Executive Officer).                                 |
| 31.2           | Rule 13a-14(a) Certifications (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by the Chief Financial Officer).                                 |
| 32             | Rule 13a-14(b) Certifications (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by the Chief Executive Officer and the Chief Financial Officer). |
| 101.INS        | XBRL Instance Document.   |
| 101.SCH        | XBRL Taxonomy Extension Schema Document.  |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document.  |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document.   |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document.  |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document.   |