

MONSANTO CO /NEW/

Form 10-Q

January 05, 2018

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MONSANTO COMPANY FIRST QUARTER 2018 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 Nov. 30, 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

43-1878297

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

800 North Lindbergh Blvd.,

63167

St. Louis, MO

(Zip Code)

(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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 ☐

Emerging growth company ☐

If any emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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: 440,858,173 shares of common stock, \$0.01 par value, outstanding as of January 2, 2018.



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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, 2017.

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 FIRST QUARTER 2018 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 months ended Nov. 30, 2017, and Nov. 30, 2016, the Statements of Consolidated Comprehensive Income (Loss) for the three months ended Nov. 30, 2017, and Nov. 30, 2016, the Statements of Consolidated Financial Position as of Nov. 30, 2017, and Aug. 31, 2017, the Statements of Consolidated Cash Flows for the three months ended Nov. 30, 2017, and Nov. 30, 2016, the Statements of Consolidated Shareowners' Equity for the three months ended Nov. 30, 2017, and year ended Aug. 31, 2017, 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 FIRST QUARTER 2018 FORM 10-Q

## Statements of Consolidated Operations

| Unaudited<br>(Dollars in millions, except per share amounts)                                | Three Months<br>Ended |                     |
|---------------------------------------------------------------------------------------------|-----------------------|---------------------|
|                                                                                             | Nov.<br>30,<br>2017   | Nov.<br>30,<br>2016 |
| Net Sales                                                                                   | \$2,658               | \$2,650             |
| Cost of goods sold                                                                          | 1,346                 | 1,391               |
| Gross Profit                                                                                | 1,312                 | 1,259               |
| Operating Expenses:                                                                         |                       |                     |
| Selling, general and administrative expenses                                                | 664                   | 585                 |
| Research and development expenses                                                           | 382                   | 370                 |
| Restructuring charges                                                                       | 4                     | (36 )               |
| Pending Bayer transaction related costs                                                     | 20                    | 93                  |
| Total Operating Expenses                                                                    | 1,070                 | 1,012               |
| Income from Operations                                                                      | 242                   | 247                 |
| Interest expense                                                                            | 124                   | 136                 |
| Interest income                                                                             | (15 )                 | (18 )               |
| Other (income) expense, net                                                                 | (97 )                 | 43                  |
| Income from Continuing Operations Before Income Taxes                                       | 230                   | 86                  |
| Income tax provision                                                                        | 60                    | 61                  |
| Income from Continuing Operations Including Portion Attributable to Noncontrolling Interest | \$ 170                | \$ 25               |
| Discontinued Operations:                                                                    |                       |                     |
| Income from operations of discontinued business                                             | 2                     | 16                  |
| Income tax provision                                                                        | 1                     | 6                   |
| Income from Discontinued Operations                                                         | 1                     | 10                  |
| Net Income                                                                                  | \$ 171                | \$ 35               |
| Less: Net income attributable to noncontrolling interest                                    | 2                     | 6                   |
| Net Income Attributable to Monsanto Company                                                 | \$ 169                | \$ 29               |
| Amounts Attributable to Monsanto Company:                                                   |                       |                     |
| Income from continuing operations                                                           | \$ 168                | \$ 19               |
| Income from discontinued operations                                                         | 1                     | 10                  |
| Net Income Attributable to Monsanto Company                                                 | \$ 169                | \$ 29               |
| Basic Earnings per Share Attributable to Monsanto Company:                                  |                       |                     |
| Income from continuing operations                                                           | \$ 0.38               | \$ 0.05             |
| Income from discontinued operations                                                         | —                     | 0.02                |
| Net Income Attributable to Monsanto Company                                                 | \$ 0.38               | \$ 0.07             |
| Diluted Earnings per Share Attributable to Monsanto Company:                                |                       |                     |
| Income from continuing operations                                                           | \$ 0.38               | \$ 0.05             |
| Income from discontinued operations                                                         | —                     | 0.02                |
| Net Income Attributable to Monsanto Company                                                 | \$ 0.38               | \$ 0.07             |
| Weighted Average Shares Outstanding:                                                        |                       |                     |
| Basic                                                                                       | 440.2                 | 438.1               |
| Diluted                                                                                     | 445.3                 | 441.7               |
| Dividends Declared per Share                                                                | \$—                   | \$—                 |

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



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## MONSANTO COMPANY FIRST QUARTER 2018 FORM 10-Q

## Statements of Consolidated Comprehensive Income (Loss)

| Unaudited<br>(Dollars in millions) | Three Months Ended |               |
|------------------------------------|--------------------|---------------|
|                                    | Nov. 30, 2017      | Nov. 30, 2016 |
| Comprehensive Income               |                    |               |
| (Loss) Attributable to             |                    |               |
| Monsanto Company                   |                    |               |
| Net Income Attributable            | \$ 169             | \$ 29         |
| to Monsanto Company                |                    |               |
| Other Comprehensive                |                    |               |
| Loss, Net of Tax:                  |                    |               |
| Foreign currency                   |                    |               |
| translation, net of tax of         | (82 )              | (268 )        |
| \$(30), and \$(1),                 |                    |               |
| respectively                       |                    |               |
| Postretirement benefit             |                    |               |
| plan activity, net of tax of 6     |                    | 10            |
| \$4, and \$6, respectively         |                    |               |
| Unrealized net losses on           |                    |               |
| investment holdings, net           | (1 )               | (1 )          |
| of tax of \$(1), and \$1,          |                    |               |
| respectively                       |                    |               |
| Unrealized net derivative          |                    |               |
| gains, net of tax of \$4, and 7    |                    | 31            |
| \$15, respectively                 |                    |               |
| Realized net derivative            |                    |               |
| losses, net of tax of \$0, 2       |                    | 21            |
| and \$15, respectively             |                    |               |
| Total Other                        |                    |               |
| Comprehensive Loss, Net (68        | )                  | (207 )        |
| of Tax                             |                    |               |
| Comprehensive Income               |                    |               |
| (Loss) Attributable to             | \$ 101             | \$ (178 )     |
| Monsanto Company                   |                    |               |
| Comprehensive Income               |                    |               |
| (Loss) Attributable to             |                    |               |
| Noncontrolling Interests           |                    |               |
| Net Income Attributable            |                    |               |
| to Noncontrolling                  | 2                  | 6             |
| Interests                          |                    |               |
| Other Comprehensive                |                    |               |
| Income (Loss)                      |                    |               |
| Foreign currency                   | —                  | (1 )          |
| translation                        |                    |               |
| Total Other                        |                    |               |
| Comprehensive Income               | —                  | (1 )          |
| (Loss)                             |                    |               |
| Comprehensive Income               | \$ 2               | \$ 5          |
| Attributable to                    |                    |               |

Noncontrolling Interests

|                     |    |     |    |      |   |
|---------------------|----|-----|----|------|---|
| Total Comprehensive | \$ | 103 | \$ | (173 | ) |
| Income (Loss)       |    |     |    |      |   |

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

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## MONSANTO COMPANY FIRST QUARTER 2018 FORM 10-Q

## Statements of Consolidated Financial Position

| Unaudited                                                                                         | As of         |               |
|---------------------------------------------------------------------------------------------------|---------------|---------------|
| (Dollars in millions, except share amounts)                                                       | Nov. 30, 2017 | Aug. 31, 2017 |
| Assets                                                                                            |               |               |
| Current Assets:                                                                                   |               |               |
| Cash and cash equivalents (variable interest entity restricted - 2018: \$52 and 2017: \$94)       | \$3,102       | \$1,856       |
| Trade receivables, net (variable interest entity restricted - 2018: \$91 and 2017: \$74)          | 2,115         | 2,161         |
| Miscellaneous receivables (variable interest entity restricted - 2018: \$7 and 2017: \$5)         | 987           | 827           |
| Inventory, net                                                                                    | 4,033         | 3,340         |
| Assets held for sale                                                                              | 44            | 199           |
| Other current assets (variable interest entity restricted - 2018: \$0 and 2017: \$1)              | 279           | 268           |
| Total Current Assets                                                                              | 10,560        | 8,651         |
| Total property, plant and equipment                                                               | 12,383        | 12,231        |
| Less accumulated depreciation                                                                     | 6,424         | 6,301         |
| Property, Plant and Equipment, net                                                                | 5,959         | 5,930         |
| Goodwill                                                                                          | 4,082         | 4,088         |
| Other Intangible Assets, Net                                                                      | 999           | 1,024         |
| Deferred Tax Assets (variable interest entity restricted - 2018: \$11 and 2017: \$11)             | 534           | 564           |
| Long-Term Receivables, Net                                                                        | 56            | 121           |
| Other Assets (variable interest entity restricted - 2018: \$4 and 2017: \$4)                      | 946           | 955           |
| Total Assets                                                                                      | \$23,136      | \$21,333      |
| Liabilities and Shareowners' Equity                                                               |               |               |
| Current Liabilities:                                                                              |               |               |
| Short-term debt, including current portion of long-term debt                                      | \$1,168       | \$870         |
| Accounts payable (variable interest entity restricted - 2018: \$2 and 2017: \$9)                  | 1,194         | 1,068         |
| Income taxes payable                                                                              | 42            | 58            |
| Accrued compensation and benefits                                                                 | 268           | 578           |
| Accrued marketing programs                                                                        | 1,193         | 1,918         |
| Deferred revenues (variable interest entity restricted - 2018: \$2 and 2017: \$0)                 | 3,119         | 727           |
| Grower production accruals                                                                        | 430           | 59            |
| Dividends payable                                                                                 | —             | 237           |
| Customer payable                                                                                  | 75            | 106           |
| Restructuring reserves                                                                            | 38            | 37            |
| Miscellaneous short-term accruals (variable interest entity restricted - 2018: \$2 and 2017: \$2) | 731           | 740           |
| Total Current Liabilities                                                                         | 8,258         | 6,398         |
| Long-Term Debt (variable interest entity restricted - 2018: \$97 and 2017: \$104)                 | 6,949         | 7,254         |
| Postretirement Liabilities                                                                        | 306           | 313           |
| Long-Term Deferred Revenue                                                                        | 111           | 114           |
| Noncurrent Deferred Tax Liabilities                                                               | 290           | 192           |
| Long-Term Portion of Environmental and Litigation Liabilities                                     | 222           | 218           |
| Other Liabilities                                                                                 | 385           | 386           |
| Shareowners' Equity:                                                                              |               |               |
| Common stock (authorized: 1,500,000,000 shares, par value \$0.01)                                 |               |               |
| Issued 614,343,272 and 613,219,246 shares, respectively                                           |               |               |
| Outstanding 440,702,218 and 439,578,276 shares, respectively                                      | 6             | 6             |
| Treasury stock 173,641,054 and 173,640,970 shares, respectively, at cost                          | (15,053)      | (15,053)      |
| Additional contributed capital                                                                    | 11,902        | 11,840        |

|                                            |          |          |
|--------------------------------------------|----------|----------|
| Retained earnings                          | 12,241   | 12,072   |
| Accumulated other comprehensive loss       | (2,495 ) | (2,427 ) |
| Total Monsanto Company Shareowners' Equity | 6,601    | 6,438    |
| Noncontrolling Interest                    | 14       | 20       |
| Total Shareowners' Equity                  | 6,615    | 6,458    |
| Total Liabilities and Shareowners' Equity  | \$23,136 | \$21,333 |

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

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## MONSANTO COMPANY FIRST QUARTER 2018 FORM 10-Q

## Statements of Consolidated Cash Flows

| Unaudited<br>(Dollars in millions)                                                    | Three Months<br>Ended |                     |
|---------------------------------------------------------------------------------------|-----------------------|---------------------|
|                                                                                       | Nov.<br>30,<br>2017   | Nov.<br>30,<br>2016 |
| Operating Activities:                                                                 |                       |                     |
| Net Income                                                                            | \$171                 | \$35                |
| Adjustments to reconcile cash provided (required) by operating activities:            |                       |                     |
| Items that did not require (provide) cash:                                            |                       |                     |
| Depreciation and amortization                                                         | 188                   | 189                 |
| Bad-debt expense                                                                      | 31                    | 7                   |
| Stock-based compensation expense                                                      | 34                    | 36                  |
| Excess tax benefits from stock-based compensation                                     | —                     | (4)                 |
| Deferred income taxes                                                                 | 106                   | 94                  |
| Restructuring impairments                                                             | 2                     | 1                   |
| Equity affiliate expense, net                                                         | 2                     | 2                   |
| Net gain on sale of a business or other assets                                        | (56)                  | —                   |
| Other items                                                                           | 15                    | 12                  |
| Changes in assets and liabilities that provided (required) cash, net of acquisitions: |                       |                     |
| Trade receivables, net                                                                | 40                    | (271)               |
| Inventory, net                                                                        | (742)                 | (681)               |
| Deferred revenue                                                                      | 2,407                 | 2,344               |
| Accounts payable and other accrued liabilities                                        | (768)                 | (54)                |
| Restructuring, net                                                                    | (8)                   | (89)                |
| Pension contributions                                                                 | (6)                   | (19)                |
| Other items, net                                                                      | (124)                 | (139)               |
| Net Cash Provided by Operating Activities                                             | 1,292                 | 1,463               |
| Cash Flows Provided (Required) by Investing Activities:                               |                       |                     |
| Maturities of short-term investments                                                  | 7                     | —                   |
| Capital expenditures                                                                  | (418)                 | (317)               |
| Acquisition of businesses, net of cash acquired                                       | —                     | (7)                 |
| Technology and other investments                                                      | (8)                   | (5)                 |
| Other investments and property disposal proceeds                                      | 209                   | 2                   |
| Net Cash Required by Investing Activities                                             | (210)                 | (327)               |
| Cash Flows Provided (Required) by Financing Activities:                               |                       |                     |
| Net change in financing with less than 90-day maturities                              | 392                   | (511)               |
| Short-term debt proceeds                                                              | 5                     | 3                   |
| Short-term debt reductions                                                            | (3)                   | (8)                 |
| Long-term debt proceeds                                                               | —                     | 599                 |
| Long-term debt reductions                                                             | (1)                   | (509)               |
| Debt issuance costs                                                                   | —                     | (2)                 |
| Stock option exercises                                                                | 56                    | 21                  |
| Excess tax benefits from stock-based compensation                                     | —                     | 4                   |
| Tax withholding on restricted stock and restricted stock units                        | (25)                  | (14)                |
| Dividend payments                                                                     | (238)                 | (237)               |
| Payments to noncontrolling interests                                                  | (8)                   | (1)                 |
| Net Cash Provided (Required) by Financing Activities                                  | 178                   | (655)               |

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|                                                              |         |         |   |
|--------------------------------------------------------------|---------|---------|---|
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | (14     | )(28    | ) |
| Net Increase in Cash and Cash Equivalents                    | 1,246   | 453     |   |
| Cash and Cash Equivalents at Beginning of Period             | 1,856   | 1,676   |   |
| Cash and Cash Equivalents at End of Period                   | \$3,102 | \$2,129 |   |

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 FIRST QUARTER 2018 FORM 10-Q

## Statements of Consolidated Shareowners' Equity

| Unaudited<br>(Dollars in millions, except per share data)     | Monsanto Shareowners |                   |                                      |                      |                                                                | Non-Controlling<br>Interest | 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> |                             |         |
| Balance as of Aug. 31, 2016                                   | \$6\$(15,053)        |                   | \$ 11,626                            | \$ 10,763            | \$ (2,808)                                                     | ) \$ 11                     | \$4,545 |
| Net Income                                                    | —                    | —                 | —                                    | 2,260                | —                                                              | 13                          | 2,273   |
| Other Comprehensive Income For Fiscal 2017                    | —                    | —                 | —                                    | —                    | 381                                                            | 1                           | 382     |
| Restricted Stock and Restricted Stock Unit Tax<br>Withholding | —                    | —                 | (18)                                 | )—                   | —                                                              | —                           | (18 )   |
| Issuance of Shares Under Employee Stock<br>Plans              | —                    | —                 | 105                                  | —                    | —                                                              | —                           | 105     |
| Stock-based Compensation Expense                              | —                    | —                 | 127                                  | —                    | —                                                              | —                           | 127     |
| Cash Dividends of \$2.16 per Common Share                     | —                    | —                 | —                                    | (951)                | )—                                                             | —                           | (951 )  |
| Payments to Noncontrolling Interest                           | —                    | —                 | —                                    | —                    | —                                                              | (5 )                        | (5 )    |
| Balance as of Aug. 31, 2017                                   | \$6\$(15,053)        |                   | \$ 11,840                            | \$ 12,072            | \$ (2,427)                                                     | ) \$ 20                     | \$6,458 |
| Net Income                                                    | —                    | —                 | —                                    | 169                  | —                                                              | 2                           | 171     |
| Other Comprehensive Loss for Fiscal 2018                      | —                    | —                 | —                                    | —                    | (68)                                                           | )—                          | (68 )   |
| Issuance of Shares Under Employee Stock<br>Plans              | —                    | —                 | 53                                   | —                    | —                                                              | —                           | 53      |
| Restricted Stock and Restricted Stock Unit Tax<br>Withholding | —                    | —                 | (25)                                 | )—                   | —                                                              | —                           | (25 )   |
| Stock-based Compensation Expense                              | —                    | —                 | 34                                   | —                    | —                                                              | —                           | 34      |
| Payments to Noncontrolling Interest                           | —                    | —                 | —                                    | —                    | —                                                              | (8 )                        | (8 )    |
| Balance as of Nov. 30, 2017                                   | \$6\$(15,053)        |                   | \$ 11,902                            | \$ 12,241            | \$ (2,495)                                                     | ) \$ 14                     | \$6,615 |

(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 FIRST QUARTER 2018 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 Jul. 25, 2017, the company signed a definitive agreement with AGCO Corporation to sell the Precision Planting equipment business for approximately \$200 million in cash, subject to customary working capital adjustments. As of Aug. 31, 2017, Monsanto had \$156 million of assets held for sale and \$12 million of liabilities held for sale classified within miscellaneous short-term accruals on the Statement of Consolidated Financial Position related to this transaction. The assets were primarily classified as inventory, net; trade receivables, net; property, plant, and equipment, net; goodwill; and other intangible assets, net, and the liabilities were primarily classified as accrued marketing programs and accounts payable. In the first quarter of fiscal 2018, the company closed on its sale of the Precision Planting equipment business, and a gain of approximately \$52 million was recognized within other (income) expense, net in the Statement of Consolidated Operations.

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, 2017. Financial information for the first three months of fiscal year 2018 should not be annualized because of the seasonality of the company's business.

NOTE 2. NEW ACCOUNTING STANDARDS

In August 2017, the Financial Accounting Standards Board ("FASB") issued accounting guidance, "Targeted Improvements to Accounting for Hedging Activities" which seeks to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2018. Adoption will be applied on a modified retrospective approach to existing hedging relationships as of the date of adoption. Monsanto is required to adopt this 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 May 2017, the FASB issued accounting guidance, “Scope of Modification Accounting” which clarifies modification accounting for share-based payment awards should not be applied if the fair value, vesting conditions, and classification of the modified award are the same before and immediately after the modification. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2017. Adoption will be applied prospectively to awards modified on or after the adoption date. 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, “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

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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 ASC as well as when these assets would be 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 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

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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 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 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 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. Specifically, under the new standard, revenue for biotechnology trait licenses 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. Upon adoption, the company may recognize a cumulative material adjustment to increase retained earnings, reflecting license revenue for which the contract period has not yet finished. The company does not expect the adoption of this standard to have an impact on the cash flows related to these license agreements. 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. The company anticipates utilizing the modified retrospective method for adopting the standard.

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**NOTE 3. RESTRUCTURING**

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

|                                                       | Three<br>Months<br>Ended<br>Nov. 30,<br>2017 | Nov. 30,<br>2016 |
|-------------------------------------------------------|----------------------------------------------|------------------|
| (Dollars in millions)                                 |                                              |                  |
| Cost of Goods Sold <sup>(1)</sup>                     | \$(13)                                       | \$(1 )           |
| Restructuring Charges <sup>(2)</sup>                  | (4 )                                         | 36               |
| Income from Continuing Operations Before Income Taxes | \$(17)                                       | \$35             |
| Income Tax Provision                                  | 8                                            | (10 )            |
| Net Income                                            | \$(9 )                                       | \$25             |

(1) For the three months ended Nov. 30, 2017, \$13 million of restructuring charges in cost of goods sold was split by segment as follows: \$10 million in Seeds and Genomics and \$3 million in Agricultural Productivity. For the three months ended Nov. 30, 2016, \$1 million of restructuring charges in cost of goods sold was recorded in the Seeds and Genomics segment.

(2) For the three months ended Nov. 30, 2017, \$4 million of restructuring charges was split by segment as follows: \$3 million in Seeds and Genomics and \$1 million in Agricultural Productivity. For the three months ended Nov. 30, 2016, the net reversal of previously recognized expense of \$36 million was split by segment as follows: \$34 million in Seeds and Genomics and \$2 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 in the range of \$900 million to \$965 million. 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: \$325 million to \$335 million in work force reductions, including severance and related benefits; \$95 million to \$130 million in facility closures/exit costs, including contract termination costs; \$480 million to \$500 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 table displays the pretax charges of \$17 million and the net reversal of previously recognized expense of \$35 million incurred by segment under the 2015 Restructuring Plan for the three months ended Nov. 30, 2017, and 2016, respectively, as well as the cumulative pretax charges of \$863 million under the 2015 Restructuring Plan.

|                           | Three months ended<br>Nov. 30, 2017 | Three months ended<br>Nov. 30, 2016 | Cumulative Amount<br>through Nov. 30, 2017 |
|---------------------------|-------------------------------------|-------------------------------------|--------------------------------------------|
| (Dollars in millions)     |                                     |                                     |                                            |
| Seeds and Genomics        | \$10                                | \$1                                 | \$11                                       |
| Agricultural Productivity | \$3                                 | \$0                                 | \$3                                        |
| Total                     | \$13                                | \$1                                 | \$14                                       |

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|                                   |         |      |         |          |         |          |        |       |        |
|-----------------------------------|---------|------|---------|----------|---------|----------|--------|-------|--------|
| Work Force Reductions             | \$ (4 ) | \$ — | \$ (4 ) | \$ (36 ) | \$ (2 ) | \$ (38 ) | \$ 303 | \$ 18 | \$ 321 |
| Facility Closures/Exit Costs      | 15      | 4    | 19      | 2        | —       | 2        | 57     | 14    | 71     |
| Asset Impairments and Write-offs: |         |      |         |          |         |          |        |       |        |
| Property, plant and equipment     | —       | —    | —       | 1        | —       | 1        | 153    | 3     | 156    |
| Inventory                         | 2       | —    | 2       | 1        | —       | 1        | 106    | —     | 106    |
| Goodwill and other assets         | —       | —    | —       | (1 )     | —       | (1 )     | 189    | 20    | 209    |
| Total Restructuring Charges, Net  | \$ 13   | \$ 4 | \$ 17   | \$ (33 ) | \$ (2 ) | \$ (35 ) | \$ 808 | \$ 55 | \$ 863 |

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

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intangible asset impairment review, Monsanto evaluates such impairment issues under the Property, Plant and Equipment topic of the ASC.

The three months ended Nov. 30, 2017, and Nov. 30, 2016, include the reversal of \$6 million and \$45 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<br>Reductions <sup>(1)</sup> | Facility<br>Closures/Exit<br>Costs <sup>(2)</sup> | Asset<br>Impairments<br>and<br>Write-offs | Total  |
|---------------------------------------------------------------------------|-----------------------------------------|---------------------------------------------------|-------------------------------------------|--------|
| Ending Liability as of Aug. 31, 2016                                      | \$ 244                                  | \$ —                                              | \$ —                                      | \$244  |
| Net restructuring charges recognized in fiscal year 2017                  | (81 )                                   | 24                                                | 46                                        | (11 )  |
| Cash payments                                                             | (119 )                                  | (22 )                                             | —                                         | (141 ) |
| Asset impairments and write-offs                                          | —                                       | —                                                 | (46 )                                     | (46 )  |
| Ending Liability as of Aug. 31, 2017                                      | \$ 44                                   | \$ 2                                              | \$ —                                      | \$46   |
| Net restructuring charges recognized in first quarter of fiscal year 2018 | (4 )                                    | 19                                                | 2                                         | 17     |
| Cash payments                                                             | (11 )                                   | (12 )                                             | —                                         | (23 )  |
| Asset impairments and write-offs                                          | —                                       | —                                                 | (2 )                                      | (2 )   |
| Ending Liability as of Nov. 30, 2017                                      | \$ 29                                   | \$ 9                                              | \$ —                                      | \$38   |

There was no long-term restructuring liability balance as of Nov. 30, 2017. The restructuring liability balance (1) included \$8 million of long-term liabilities that was recorded in other liabilities in the Statement of Consolidated Financial Position as of Aug. 31, 2017.

(2) There was no long-term restructuring liability balance as of Nov. 30, 2017. The restructuring liability balance included \$1 million of long-term liabilities that was recorded in other liabilities in the Statement of Consolidated Financial Position as of Aug. 31, 2017.

#### NOTE 4. CUSTOMER FINANCING PROGRAMS

Monsanto participates in customer financing programs as follows:

| (Dollars in millions)                                                           | As of<br>Nov. Aug.<br>30, 31,<br>2017 2017 |
|---------------------------------------------------------------------------------|--------------------------------------------|
| Transactions that Qualify for Sales Treatment                                   |                                            |
| U.S. agreement to sell trade receivables <sup>(1)</sup>                         |                                            |
| Outstanding balance                                                             | \$235 \$539                                |
| Maximum future payout under recourse provisions                                 | 18 21                                      |
| European and Latin American agreements to sell trade receivables <sup>(2)</sup> |                                            |
| Outstanding balance                                                             | \$48 \$107                                 |
| Maximum future payout under recourse provisions                                 | 12 27                                      |
| Agreements with Lenders <sup>(3)</sup>                                          |                                            |
| Outstanding balance                                                             | \$80 \$92                                  |
| Maximum future payout under the guarantee                                       | 40 52                                      |



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The gross amounts of receivables sold under transactions that qualify for sales treatment were:

|                       | Gross<br>Amounts of<br>Receivables<br>Sold<br>Three<br>Months<br>Ended<br>Nov. 30,<br>2017 | Nov. 30,<br>2016 |
|-----------------------|--------------------------------------------------------------------------------------------|------------------|
| (Dollars in millions) |                                                                                            |                  |

Transactions that Qualify for Sales Treatment

U.S. agreement to sell trade receivables<sup>(1)</sup> \$ 13 \$ 115

European and Latin American agreements to sell trade receivables<sup>(2)</sup> 8 6

(1) 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.

(2) 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.

(3) 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 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 \$107 million as of Nov. 30, 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 Nov. 30, 2017, and Aug. 31, 2017.

There were no significant delinquent loans for all programs as of Nov. 30, 2017, and Aug. 31, 2017.

**NOTE 5. VARIABLE INTEREST ENTITIES AND INVESTMENTS**

**Variable Interest Entities**

On Nov. 4, 2016, Monsanto entered into a financing program in Brazil that is recorded as a consolidated variable interest entity (“VIE”). For the most part, the arrangement of the Brazil VIE consists 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 arrangement, third parties, primarily investment funds, hold senior interests of 82 percent and 85 percent in the entity as of Nov. 30, 2017, and Aug. 31, 2017, respectively, and Monsanto holds the remaining 18 percent and 15 percent, respectively. The senior interests held by third parties are mandatorily redeemable shares and are included in long-term debt in the Statements of Consolidated Financial Position as of Nov. 30, 2017, and Aug. 31, 2017, respectively.

Under the 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

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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 option. 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 does 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.

Monsanto has an agreement with a related party to establish an entity to focus on research, development and commercialization of insect resistant hybrid cotton in India. This entity is recorded as a consolidated VIE of Monsanto. Under the arrangement, Monsanto performs substantially all of the VIE’s activities, which are reimbursed by the VIE. Further, since this entity was formed with a Monsanto related party, it was determined that Monsanto is most closely associated with the VIE. As a result, Monsanto is the primary beneficiary of the VIE, and the VIE is consolidated in Monsanto’s consolidated financial statements. The related-party owner of the VIE does not have recourse to the general assets of Monsanto beyond Monsanto’s maximum exposure to loss at any given time relating to the VIE, unless Monsanto is required to indemnify the related-party owner as a result of a third-party claim for injury to a person or damage to property caused by Monsanto’s activities as it relates to the VIE.

Monsanto enters into agreements with agents and dealers to distribute certain branded seed in the United States. Monsanto offers financing to agents and dealers that constitutes a variable interest as it exposes Monsanto to variability of the agent or dealer. Certain agents and dealers with these financing arrangements have been determined to be VIEs. Monsanto does not consolidate the agents or dealers as Monsanto is not the primary beneficiary, and any exposure to loss is limited to the amount of financing provided to the agent or dealer. The amount of Monsanto’s exposure varies based on the seasonality of the business and is not material as of Nov. 30, 2017, and Aug. 31, 2017. Monsanto enters into agreements with distributors and dealers to distribute certain branded seed in the United States. Monsanto offers distributors and dealers the right of return that exposes Monsanto to variability and constitutes a variable interest in certain distributors and dealers. Certain distributors and dealers with these arrangements have been determined to be VIEs. Monsanto does not consolidate the distributors and dealers with these arrangements as Monsanto is not the primary beneficiary, and any exposure to loss is limited to the amount of the variable interest in the entity.

In fiscal year 2017, Monsanto entered into an agreement with a third party to establish an entity to focus on the sale of industrial, ornamental, and turf non-selective agricultural herbicides. Monsanto has provided an unc customary indemnification to the third party that provides Monsanto the option under specified conditions to dissolve the entity, terminate all commercial agreements of the entity or receive all interest in the entity. Monsanto has determined the entity to be a VIE. Monsanto does not consolidate the entity as Monsanto is not the primary beneficiary. The amount

of Monsanto's exposure to loss related to the unc customary indemnification is limited to approximately \$29 million as of Nov. 30, 2017, and Aug. 31, 2017. Additionally, Monsanto has provided an indemnification to the third party and newly formed legal entity related to specified product claims. The amount of Monsanto's exposure varies based upon the third party and newly formed legal entity's losses related to such product claims and is not material as of Nov. 30, 2017, and Aug. 31, 2017.

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**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    |          |
|---------------------------|----------|----------|
|                           | Nov. 30, | Aug. 31, |
| (Dollars in millions)     | 2017     | 2017     |
| Equity Method Investments | \$ 164   | \$ 166   |
| Cost Basis Investments    | 114      | 116      |
| Total                     | \$ 278   | \$ 282   |

**NOTE 6. RECEIVABLES**

Trade receivables in the Statements of Consolidated Financial Position are net of allowances of \$109 million and \$78 million as of Nov. 30, 2017, and Aug. 31, 2017, 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 \$326 million and \$398 million with a corresponding allowance for credit losses on these receivables of \$270 million and \$277 million as of Nov. 30, 2017, and Aug. 31, 2017, 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, 2016                              | \$ 228 |
| Incremental Provision                                    | 20     |
| Recoveries                                               | (38 )  |
| Write-offs                                               | (2 )   |
| Reclassifications from allowance for current receivables | 67     |
| Foreign currency translation adjustments                 | 2      |
| Balance as of Aug. 31, 2017                              | \$ 277 |
| Recoveries                                               | (1 )   |
| Reclassifications to allowance for current receivables   | (2 )   |
| Foreign currency translation adjustments                 | (4 )   |
| Balance as of Nov. 30, 2017                              | \$ 270 |

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.

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## NOTE 7. INVENTORY

Components of inventory are:

|                               | As of       |             |
|-------------------------------|-------------|-------------|
|                               | Nov.        | Aug.        |
| (Dollars in millions)         | 30,<br>2017 | 31,<br>2017 |
| Finished Goods                | \$1,818     | \$1,477     |
| Goods In Process              | 1,678       | 1,446       |
| Raw Materials and Supplies    | 689         | 561         |
| Inventory at FIFO Cost        | 4,185       | 3,484       |
| Excess of FIFO over LIFO Cost | (152 )      | (144 )      |
| Total                         | \$4,033     | \$3,340     |

## NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the net carrying amount of goodwill for the first three months of fiscal year 2018, by segment, are as follows:

| (Dollars in millions)                                        | Seeds and Agricultural<br>Genomics Productivity |       | Total   |
|--------------------------------------------------------------|-------------------------------------------------|-------|---------|
| Balance as of Aug. 31, 2017                                  | \$ 4,039                                        | \$ 49 | \$4,088 |
| Effect of foreign currency translation and other adjustments | (7 )                                            | 1     | (6 )    |
| Balance as of Nov. 30, 2017                                  | \$ 4,032                                        | \$ 50 | \$4,082 |

There were no events or circumstances indicating that goodwill might be impaired as of Nov. 30, 2017. The fiscal year 2018 annual goodwill impairment test will be performed as of Mar. 1, 2018.

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

| (Dollars in millions)                               | As of Nov. 30, 2017 |                             |       | As of Aug. 31, 2017 |                             |         |
|-----------------------------------------------------|---------------------|-----------------------------|-------|---------------------|-----------------------------|---------|
|                                                     | Carrying<br>Amount  | Accumulated<br>Amortization | Net   | Carrying<br>Amount  | Accumulated<br>Amortization | Net     |
| Acquired Germplasm                                  | \$1,074             | \$ (816 )                   | \$258 | \$1,077             | \$ (814 )                   | \$263   |
| Acquired Intellectual Property                      | 1,074               | (684 )                      | 390   | 1,079               | (671 )                      | 408     |
| Trademarks                                          | 334                 | (167 )                      | 167   | 335                 | (165 )                      | 170     |
| Customer Relationships                              | 291                 | (232 )                      | 59    | 291                 | (228 )                      | 63      |
| Other                                               | 74                  | (42 )                       | 32    | 68                  | (40 )                       | 28      |
| Total Other Intangible Assets, Finite Lives         | \$2,847             | \$ (1,941 )                 | \$906 | \$2,850             | \$ (1,918 )                 | \$932   |
| In Process Research & Development, Indefinite Lives | 93                  | —                           | 93    | 92                  | —                           | 92      |
| Total Other Intangible Assets                       | \$2,940             | \$ (1,941 )                 | \$999 | \$2,942             | \$ (1,918 )                 | \$1,024 |

Total amortization expense of total other intangible assets was \$23 million and \$30 million for the three months ended Nov. 30, 2017, and Nov. 30, 2016, respectively.

The estimated intangible asset amortization expense for fiscal year 2018 through fiscal year 2022 is as follows:

| (Dollars in millions) | Amount |
|-----------------------|--------|
| 2018                  | \$ 119 |
| 2019                  | 119    |

|      |     |
|------|-----|
| 2020 | 111 |
| 2021 | 110 |
| 2022 | 105 |

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NOTE 9. DEFERRED REVENUE

As of Nov. 30, 2017, and Aug. 31, 2017, short-term deferred revenue was \$3,119 million and \$727 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 Nov. 30, 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 the current portion of long-term debt, notes payable to banks and borrowings under the delayed draw term loan facility. As of Nov. 30, 2017, and Aug. 31, 2017, Monsanto did not have any commercial paper outstanding. Additionally, as of Nov. 30, 2017, and Aug. 31, 2017, the mandatorily redeemable shares of the Brazil VIE were classified as long-term debt instruments. See Note 5 — Variable Interest Entities and Investments — for additional information.

In October 2016, Monsanto entered into 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 Nov. 30, 2017, and Aug. 31, 2017. Proceeds were used for general corporate purposes.

The fair value of total short-term debt was \$1,172 million and \$877 million as of Nov. 30, 2017, and Aug. 31, 2017, respectively. The fair value of the total long-term debt was \$7,294 million and \$7,603 million as of Nov. 30, 2017, and Aug. 31, 2017, 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 Nov. 30, 2017, and Aug. 31, 2017. 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>Nov. 30, 2017, Using |         |         | Net<br>Balance |
|--------------------------------------------|----------------------------------------------------|---------|---------|----------------|
|                                            | Level 1                                            | Level 2 | Level 3 |                |
| Assets at Fair Value:                      |                                                    |         |         |                |
| Cash equivalents                           | \$2,784                                            | \$—     | \$ —    | \$ 2,784       |
| Short-term investments                     | 1                                                  | —       | —       | 1              |
| Equity securities                          | 8                                                  | —       | —       | 8              |
| Derivative assets related to:              |                                                    |         |         |                |
| Foreign currency contracts                 | —                                                  | 17      | —       | 17             |
| Commodity contracts                        | 9                                                  | 4       | —       | 13             |
| Total Assets at Fair Value                 | \$2,802                                            | \$21    | \$ —    | \$ 2,823       |
| Liabilities at Fair Value:                 |                                                    |         |         |                |
| Short-term debt instruments <sup>(1)</sup> | \$—                                                | \$1,172 | \$ —    | \$ 1,172       |
| Long-term debt instruments <sup>(1)</sup>  | —                                                  | 7,197   | 97      | 7,294          |
| Derivative liabilities related to:         |                                                    |         |         |                |
| Foreign currency contracts                 | —                                                  | 13      | —       | 13             |
| Commodity contracts                        | 6                                                  | 2       | —       | 8              |
| Total Liabilities at Fair Value            | \$6                                                | \$8,384 | \$ 97   | \$ 8,487       |

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, 2017, Using |         |         | Net<br>Balance |
|--------------------------------------------|----------------------------------------------------|---------|---------|----------------|
|                                            | Level 1                                            | Level 2 | Level 3 |                |
| Assets at Fair Value:                      |                                                    |         |         |                |
| Cash equivalents                           | \$1,034                                            | \$—     | \$ —    | \$ 1,034       |
| Short-term investments                     | 8                                                  | —       | —       | 8              |
| Equity securities                          | 10                                                 | —       | —       | 10             |
| Derivative assets related to:              |                                                    |         |         |                |
| Foreign currency contracts                 | —                                                  | 10      | —       | 10             |
| Commodity contracts                        | 3                                                  | 7       | —       | 10             |
| Total Assets at Fair Value                 | \$1,055                                            | \$17    | \$ —    | \$ 1,072       |
| Liabilities at Fair Value:                 |                                                    |         |         |                |
| Short-term debt instruments <sup>(1)</sup> | \$—                                                | \$877   | \$ —    | \$ 877         |
| Long-term debt instruments <sup>(1)</sup>  | —                                                  | 7,499   | 104     | 7,603          |
| Derivative liabilities related to:         |                                                    |         |         |                |
| Foreign currency contracts                 | —                                                  | 16      | —       | 16             |
| Commodity contracts                        | 7                                                  | 6       | —       | 13             |

Total Liabilities at Fair Value \$7 \$8,398\$ 104 \$ 8,509

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 or dealer quoted prices. When observable inputs are available for substantially the full term of the contract, it is classified as

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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, borrowings under the delayed draw term loan facility and notes payable to banks. Commercial paper, notes payable to banks and borrowings under the delayed draw term loan facility 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 three months ended Nov. 30, 2017, and Nov. 30, 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 Nov. 30, 2017, and Aug. 31, 2017. The following table summarizes the change in fair value of the Level 3 long-term debt instrument for the three months ended Nov. 30, 2017.

(Dollars in millions)

|                                                    |        |
|----------------------------------------------------|--------|
| Balance Aug. 31, 2017                              | \$ 104 |
| Accretion expense                                  | 2      |
| Payments                                           | (5 )   |
| Effect of foreign currency translation adjustments | (4 )   |
| Balance Nov. 30, 2017 <sup>(1)</sup>               | \$ 97  |

(1) Includes 315,000 mandatorily redeemable shares outstanding with a par value of 1,000 Brazilian reais (approximately \$307) as of Nov. 30, 2017.

There were no significant measurements of assets or liabilities to their implied fair value on a nonrecurring basis during the three months ended Nov. 30, 2017, and Nov. 30, 2016.

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 Nov. 30, 2017, and Aug. 31, 2017.

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 nine months for foreign currency hedges and 24 months for commodity hedges. During the next 12 months, a pretax net loss of approximately \$21 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 three months ended Nov. 30, 2016, because it was probable 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 Nov. 30, 2017.

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 months ended Nov. 30, 2017, and Nov. 30, 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, 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 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.

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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 Nov. 30, 2017, and Aug. 31, 2017, are as follows:

| (Dollars in millions)                      | As of         |               |
|--------------------------------------------|---------------|---------------|
|                                            | Nov. 30, 2017 | Aug. 31, 2017 |
| Derivatives Designated as Hedges:          |               |               |
| Foreign exchange contracts                 | \$369         | \$453         |
| Commodity contracts                        | 491           | 430           |
| Total Derivatives Designated as Hedges     | \$860         | \$883         |
| Derivatives Not Designated as Hedges:      |               |               |
| Foreign exchange contracts                 | \$1,407       | \$2,133       |
| Commodity contracts                        | 98            | 189           |
| Interest rate contracts                    | 7             | 21            |
| Total Derivatives Not Designated as Hedges | \$1,512       | \$2,343       |

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

| (Dollars in millions)                      | As of Nov. 30, 2017                                                               |                                                                        |                                                                                            |                       |                                                                                            |                                                                                            | Statement of<br>Consolidated<br>Financial<br>Balance |
|--------------------------------------------|-----------------------------------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|-----------------------|--------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|------------------------------------------------------|
|                                            | Gross<br>Amounts<br>Recognized<br>in the<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 | Other Items<br>Included in<br>the Statement<br>of<br>Consolidated<br>Financial<br>Position |                                                      |
| Asset Derivatives:                         |                                                                                   |                                                                        |                                                                                            |                       |                                                                                            |                                                                                            |                                                      |
| Other current assets                       |                                                                                   |                                                                        |                                                                                            |                       |                                                                                            |                                                                                            |                                                      |
| Derivatives designated as<br>hedges:       |                                                                                   |                                                                        |                                                                                            |                       |                                                                                            |                                                                                            |                                                      |
| Commodity contracts <sup>(1)</sup>         | \$9                                                                               | \$ (4 )                                                                | \$ 5                                                                                       | \$ —                  | \$ 5                                                                                       |                                                                                            |                                                      |
| Derivatives not designated<br>as hedges:   |                                                                                   |                                                                        |                                                                                            |                       |                                                                                            |                                                                                            |                                                      |
| Commodity contracts                        | 3                                                                                 | —                                                                      | 3                                                                                          | —                     | 3                                                                                          |                                                                                            |                                                      |
| Foreign exchange contracts                 | 17                                                                                | —                                                                      | 17                                                                                         | —                     | 17                                                                                         |                                                                                            |                                                      |
| Total other current assets                 | 29                                                                                | (4 )                                                                   | 25                                                                                         | —                     | 25                                                                                         | \$ 254                                                                                     | \$ 279                                               |
| Other assets                               |                                                                                   |                                                                        |                                                                                            |                       |                                                                                            |                                                                                            |                                                      |
| Derivatives designated as<br>hedges:       |                                                                                   |                                                                        |                                                                                            |                       |                                                                                            |                                                                                            |                                                      |
| Commodity contracts <sup>(1)</sup>         | —                                                                                 | (2 )                                                                   | (2 )                                                                                       | 2                     | —                                                                                          |                                                                                            |                                                      |
| Total other assets                         | —                                                                                 | (2 )                                                                   | (2 )                                                                                       | 2                     | —                                                                                          | 946                                                                                        | 946                                                  |
| Miscellaneous short-term<br>accruals       |                                                                                   |                                                                        |                                                                                            |                       |                                                                                            |                                                                                            |                                                      |
| Derivatives designated as<br>hedges:       |                                                                                   |                                                                        |                                                                                            |                       |                                                                                            |                                                                                            |                                                      |
| Commodity contracts <sup>(1)</sup>         | 1                                                                                 | (1 )                                                                   | —                                                                                          | —                     | —                                                                                          |                                                                                            |                                                      |
| Total miscellaneous<br>short-term accruals | 1                                                                                 | (1 )                                                                   | —                                                                                          | —                     | —                                                                                          |                                                                                            |                                                      |
| Total Asset Derivatives                    | \$30                                                                              | \$ (7 )                                                                | \$ 23                                                                                      | \$ 2                  | \$ 25                                                                                      |                                                                                            |                                                      |
| Liability Derivatives:                     |                                                                                   |                                                                        |                                                                                            |                       |                                                                                            |                                                                                            |                                                      |
| Other current assets                       |                                                                                   |                                                                        |                                                                                            |                       |                                                                                            |                                                                                            |                                                      |
| Derivatives designated as<br>hedges:       |                                                                                   |                                                                        |                                                                                            |                       |                                                                                            |                                                                                            |                                                      |
| Commodity contracts <sup>(1)</sup>         | \$4                                                                               | \$ (4 )                                                                | \$ —                                                                                       | \$ —                  | \$ —                                                                                       |                                                                                            |                                                      |
| Total other current assets                 | 4                                                                                 | (4 )                                                                   | —                                                                                          | —                     | —                                                                                          |                                                                                            |                                                      |
| Other assets                               |                                                                                   |                                                                        |                                                                                            |                       |                                                                                            |                                                                                            |                                                      |

|                                         |      |       |   |       |      |       |        |        |  |
|-----------------------------------------|------|-------|---|-------|------|-------|--------|--------|--|
| Derivatives designated as hedges:       |      |       |   |       |      |       |        |        |  |
| Commodity contracts <sup>(1)</sup>      | 2    | (2    | ) | —     | —    | —     |        |        |  |
| Total other assets                      | 2    | (2    | ) | —     | —    | —     |        |        |  |
| Miscellaneous short-term accruals       |      |       |   |       |      |       |        |        |  |
| Derivatives designated as hedges:       |      |       |   |       |      |       |        |        |  |
| Commodity contracts <sup>(1)</sup>      | 1    | (1    | ) | —     | —    | —     |        |        |  |
| Foreign exchange contracts              | 7    | —     |   | 7     | —    | 7     |        |        |  |
| Derivatives not designated as hedges:   |      |       |   |       |      |       |        |        |  |
| Commodity contracts                     | 1    | —     |   | 1     | —    | 1     |        |        |  |
| Foreign exchange contracts              | 6    | —     |   | 6     | —    | 6     |        |        |  |
| Total miscellaneous short-term accruals | 15   | (1    | ) | 14    | —    | 14    | \$ 717 | \$ 731 |  |
| Total Liability Derivatives             | \$21 | \$ (7 | ) | \$ 14 | \$ — | \$ 14 |        |        |  |

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 (1) 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, 2017      |                                                            |                                                                          |                    |                                                                          |                                                                          | Statement of Consolidated Financial Balance |
|-----------------------------------------|--------------------------|------------------------------------------------------------|--------------------------------------------------------------------------|--------------------|--------------------------------------------------------------------------|--------------------------------------------------------------------------|---------------------------------------------|
|                                         | Gross Amounts Recognized | Offset in the Statement of Consolidated Financial Position | Net Amounts Included in the Statement of Consolidated Financial Position | Collateral Pledged | Net Amounts Reported in the Statement of Consolidated Financial Position | Other Items Included in the Statement of Consolidated Financial Position |                                             |
| Asset Derivatives:                      |                          |                                                            |                                                                          |                    |                                                                          |                                                                          |                                             |
| Other current assets                    |                          |                                                            |                                                                          |                    |                                                                          |                                                                          |                                             |
| Derivatives designated as hedges:       |                          |                                                            |                                                                          |                    |                                                                          |                                                                          |                                             |
| Commodity contracts <sup>(1)</sup>      | \$2                      | \$ (7 )                                                    | \$ (5 )                                                                  | \$ 5               | \$ —                                                                     |                                                                          |                                             |
| Derivatives not designated as hedges:   |                          |                                                            |                                                                          |                    |                                                                          |                                                                          |                                             |
| Commodity contracts                     | 6                        | —                                                          | 6                                                                        | —                  | 6                                                                        |                                                                          |                                             |
| Foreign exchange contracts              | 10                       | —                                                          | 10                                                                       | —                  | 10                                                                       |                                                                          |                                             |
| Total other current assets              | 18                       | (7 )                                                       | 11                                                                       | 5                  | 16                                                                       | \$ 252                                                                   | \$ 268                                      |
| Other assets                            |                          |                                                            |                                                                          |                    |                                                                          |                                                                          |                                             |
| Derivatives designated as hedges:       |                          |                                                            |                                                                          |                    |                                                                          |                                                                          |                                             |
| Commodity contracts                     | 1                        | —                                                          | 1                                                                        | —                  | 1                                                                        |                                                                          |                                             |
| Total other assets                      | 1                        | —                                                          | 1                                                                        | —                  | 1                                                                        | 954                                                                      | 955                                         |
| Miscellaneous short-term accruals       |                          |                                                            |                                                                          |                    |                                                                          |                                                                          |                                             |
| Derivatives designated as hedges:       |                          |                                                            |                                                                          |                    |                                                                          |                                                                          |                                             |
| Commodity contracts <sup>(1)</sup>      | 1                        | (1 )                                                       | —                                                                        | —                  | —                                                                        |                                                                          |                                             |
| Total miscellaneous short-term accruals | 1                        | (1 )                                                       | —                                                                        | —                  | —                                                                        |                                                                          |                                             |
| Total Asset Derivatives                 | \$20                     | \$ (8 )                                                    | \$ 12                                                                    | \$ 5               | \$ 17                                                                    |                                                                          |                                             |
| Liability Derivatives:                  |                          |                                                            |                                                                          |                    |                                                                          |                                                                          |                                             |
| Other current assets                    |                          |                                                            |                                                                          |                    |                                                                          |                                                                          |                                             |
| Derivatives designated as hedges:       |                          |                                                            |                                                                          |                    |                                                                          |                                                                          |                                             |
| Commodity contracts <sup>(1)</sup>      | \$7                      | \$ (7 )                                                    | \$ —                                                                     | \$ —               | \$ —                                                                     |                                                                          |                                             |
| Total other current assets              | 7                        | (7 )                                                       | —                                                                        | —                  | —                                                                        |                                                                          |                                             |
| Miscellaneous short-term accruals       |                          |                                                            |                                                                          |                    |                                                                          |                                                                          |                                             |

|                                         |      |       |   |       |      |       |        |        |  |
|-----------------------------------------|------|-------|---|-------|------|-------|--------|--------|--|
| Derivatives designated as hedges:       |      |       |   |       |      |       |        |        |  |
| Commodity contracts <sup>(1)</sup>      | 3    | (1    | ) | 2     | —    | 2     |        |        |  |
| Foreign currency contracts              | 14   | —     |   | 14    | —    | 14    |        |        |  |
| Derivatives not designated as hedges:   |      |       |   |       |      |       |        |        |  |
| Commodity contracts                     | 3    | —     |   | 3     | —    | 3     |        |        |  |
| Foreign exchange contracts              | 2    | —     |   | 2     | —    | 2     |        |        |  |
| Total miscellaneous short-term accruals | 22   | (1    | ) | 21    | —    | 21    | \$ 719 | \$ 740 |  |
| Total Liability Derivatives             | \$29 | \$ (8 | ) | \$ 21 | \$ — | \$ 21 |        |        |  |

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)<br>Recognized in AOCL <sup>(1)</sup><br>(Effective Portion)<br>Three Months<br>Ended |                  | Amount of Gain (Loss)<br>Recognized in Income <sup>(2)(3)</sup><br>Three Months Ended |                  | Statements of Consolidated Operations<br>Classification |
|-----------------------------------------------|---------------------------------------------------------------------------------------------------------------|------------------|---------------------------------------------------------------------------------------|------------------|---------------------------------------------------------|
|                                               | Nov. 30,<br>2017                                                                                              | Nov. 30,<br>2016 | Nov.<br>30,<br>2017                                                                   | Nov. 30,<br>2016 |                                                         |
|                                               |                                                                                                               |                  |                                                                                       |                  |                                                         |
|                                               |                                                                                                               |                  |                                                                                       |                  |                                                         |
| Derivatives Designated as<br>Hedges:          |                                                                                                               |                  |                                                                                       |                  |                                                         |
| Fair value hedges:                            |                                                                                                               |                  |                                                                                       |                  |                                                         |
| Commodity contracts                           |                                                                                                               |                  | \$ —                                                                                  | \$ (13           | ) Cost of goods sold                                    |
| Cash flow hedges:                             |                                                                                                               |                  |                                                                                       |                  |                                                         |
| Foreign currency contracts                    | \$ 9                                                                                                          | \$ 17            | 2                                                                                     | 7                | Net sales                                               |
| Foreign currency contracts                    | —                                                                                                             | 6                | —                                                                                     | 1                | Cost of goods sold                                      |
| Commodity contracts                           | 2                                                                                                             | 19               | (1                                                                                    | (3               | ) Cost of goods sold                                    |
| Interest rate contracts                       | —                                                                                                             | —                | —                                                                                     | (37              | ) Other (income) expense, net                           |
| Interest rate contracts                       | —                                                                                                             | 4                | (3                                                                                    | (4               | ) Interest expense                                      |
| Total Derivatives Designated as<br>Hedges     | 11                                                                                                            | 46               | (2                                                                                    | (49              | )                                                       |
| Derivatives Not Designated as<br>Hedges:      |                                                                                                               |                  |                                                                                       |                  |                                                         |
| Foreign currency contracts <sup>(4)</sup>     |                                                                                                               |                  | 11                                                                                    | (45              | ) Other (income) expense, net                           |
| Commodity contracts                           |                                                                                                               |                  | (1                                                                                    | ) —              | Net sales                                               |
| Commodity contracts                           |                                                                                                               |                  | —                                                                                     | (1               | ) Cost of goods sold                                    |
| Total Derivatives Not Designated<br>as Hedges |                                                                                                               |                  | 10                                                                                    | (46              | )                                                       |
| Total Derivatives                             | \$ 11                                                                                                         | \$ 46            | \$ 8                                                                                  | \$ (95           | )                                                       |

(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 Nov. 30, 2017, and Nov. 30, 2016. No gains or losses were excluded from the assessment of hedge effectiveness during the three months ended Nov. 30, 2017, and Nov. 30, 2016.

Gain or loss on foreign currency contracts not designated as hedges was offset by a foreign currency transaction loss of \$2 million and a gain of \$39 million during the three months ended Nov. 30, 2017, and Nov. 30, 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 \$11 million and \$19 million as of Nov. 30, 2017, and Aug. 31, 2017, 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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**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 Nov. 30, 2017, and Aug. 31, 2017, 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 |                  |       |
|----------------------------------------------------|--------------------|------------------|-------|--------------------|------------------|-------|
|                                                    | Nov. 30, 2017      |                  |       | Nov. 30, 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 | \$14               | \$ 3             | \$17  | \$15               | \$ 3             | \$18  |
| Interest Cost on Benefit Obligation                | 22                 | 1                | 23    | 21                 | 2                | 23    |
| Assumed Return on Plan Assets                      | (43)               | (2)              | (45)  | (42)               | (2)              | (44)  |
| Amortization of Unrecognized Net Loss              | 10                 | 1                | 11    | 12                 | 1                | 13    |
| Total Net Periodic Benefit Cost                    | \$3                | \$ 3             | \$6   | \$6                | \$ 4             | \$10  |
| Health Care and Other Postretirement Benefits      |                    |                  |       |                    |                  |       |
| Three Months Ended Nov. 30, 2017                   |                    |                  |       |                    |                  |       |
| (Dollars in millions)                              |                    |                  |       |                    |                  |       |
| Service Cost for Benefits Earned During the Period | \$2                | \$ 1             |       |                    |                  |       |
| Interest Cost on Benefit Obligation                | 1                  | 1                |       |                    |                  |       |
| Amortization of Unrecognized Net Loss/(Gain)       | (1)                | 1                |       |                    |                  |       |
| Total Net Periodic Benefit Cost                    | \$2                | \$ 3             |       |                    |                  |       |



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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 months ended Nov. 30, 2017, and Nov. 30, 2016.

|                                              | Three<br>Months<br>Ended<br>Nov. Nov.<br>30, 30,<br>2017 2016 |       |
|----------------------------------------------|---------------------------------------------------------------|-------|
| (Dollars in millions)                        |                                                               |       |
| Cost of Goods Sold                           | \$4                                                           | \$3   |
| Selling, General and Administrative Expenses | 25                                                            | 26    |
| Research and Development Expenses            | 6                                                             | 6     |
| Restructuring Charges                        | —                                                             | 1     |
| Pre-Tax Stock-Based Compensation Expense     | 35                                                            | 36    |
| Income Tax Benefit                           | (16 )                                                         | (13 ) |
| Net Stock-Based Compensation Expense         | \$19                                                          | \$23  |

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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, 2016                                    | \$ (2,292 )                                       | \$ (340 )                          | \$ 1                                                                 | \$ (177 )              | \$ (2,808 )                                                     |
| Other comprehensive income (loss) before reclassifications     | 233                                               | 55                                 | (2 )                                                                 | 21                     | 307                                                             |
| Amounts reclassified from accumulated other comprehensive loss | —                                                 | 38                                 | 2                                                                    | 34                     | 74                                                              |
| Net current-period other comprehensive income                  | 233                                               | 93                                 | —                                                                    | 55                     | 381                                                             |
| Balance as of Aug. 31, 2017                                    | \$ (2,059 )                                       | \$ (247 )                          | \$ 1                                                                 | \$ (122 )              | \$ (2,427 )                                                     |
| Other comprehensive (loss) income before reclassifications     | (82 )                                             | —                                  | (1 )                                                                 | 7                      | (76 )                                                           |
| Amounts reclassified from accumulated other comprehensive loss | —                                                 | 6                                  | —                                                                    | 2                      | 8                                                               |
| Net current-period other comprehensive (loss) income           | (82 )                                             | 6                                  | (1 )                                                                 | 9                      | (68 )                                                           |
| Balance as of Nov. 30, 2017                                    | \$ (2,141 )                                       | \$ (241 )                          | \$ —                                                                 | \$ (113 )              | \$ (2,495 )                                                     |

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

| (Dollars in millions)         | Three<br>Months<br>Ended<br>Nov. 30,<br>2017 | Nov. 30,<br>2016 | Affected Line Item in the Statements of Consolidated Operations |
|-------------------------------|----------------------------------------------|------------------|-----------------------------------------------------------------|
| Cash Flow Hedges:             |                                              |                  |                                                                 |
| Foreign Exchange Contracts    | \$ (2)                                       | \$ (7 )          | Net sales                                                       |
| Foreign Exchange Contracts    | —                                            | (1 )             | Cost of goods sold                                              |
| Commodity Contracts           | 1                                            | 3                | Cost of goods sold                                              |
| Interest Rate Contracts       | —                                            | 37               | Other (income) expense, net                                     |
| Interest Rate Contracts       | 3                                            | 4                | Interest expense                                                |
|                               | 2                                            | 36               | Total before income taxes                                       |
|                               | —                                            | (15 )            | Income tax provision                                            |
|                               | \$ 2                                         | \$ 21            | Net of tax                                                      |
| Postretirement Benefit Items: |                                              |                  |                                                                 |

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|                                        |     |      |                                              |
|----------------------------------------|-----|------|----------------------------------------------|
| Amortization of Unrecognized Net Loss  | \$4 | \$6  | Inventory/Cost of goods sold <sup>(1)</sup>  |
| Amortization of Unrecognized Net Loss  | 6   | 10   | Selling, general and administrative expenses |
|                                        | 10  | 16   | Total before income taxes                    |
|                                        | (4) | (6)  | Income tax provision                         |
|                                        | \$6 | \$10 | Net of tax                                   |
| Total Reclassifications For The Period | \$8 | \$31 | 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 \$4 million and \$6 million of net periodic benefit cost to inventory, of which approximately \$1 million and \$2 million was recognized in cost of goods sold during the three months ended Nov. 30, 2017, and Nov. 30, 2016, respectively. See Note 13 — Postretirement Benefits - Pensions, Health Care and Other — for additional information.

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## 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 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.

|                                          | Three<br>Months<br>Ended<br>Nov. 30,<br>2017 | Nov. 30,<br>2016 |
|------------------------------------------|----------------------------------------------|------------------|
| (Shares in millions)                     | 440.2                                        | 438.1            |
| Weighted-Average Number of Common Shares | 5.1                                          | 3.6              |
| Dilutive Potential Common Shares         | 0.1                                          | 4.0              |
| Antidilutive Potential Common Shares     |                                              |                  |

## NOTE 17. SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments for interest and taxes were as follows:

|                       | Three<br>Months<br>Ended<br>Nov. 30,<br>2017 | Nov. 30,<br>2016 |
|-----------------------|----------------------------------------------|------------------|
| (Dollars in millions) | \$89                                         | \$95             |
| Interest              | 102                                          | 70               |
| Taxes                 |                                              |                  |

The company recorded the following noncash transactions:

During the three months ended Nov. 30, 2017, and Nov. 30, 2016, the company recognized noncash transactions related to restructuring. See Note 3 — Restructuring.

As of Nov. 30, 2017, and Nov. 30, 2016, the company recognized noncash capital expenditures of \$107 million and \$102 million, respectively, in accounts payable in the Statements of Consolidated Financial Position.

During the three months ended Nov. 30, 2017, and Nov. 30, 2016, the company recognized noncash transactions related to stock-based compensation. See Note 14 — Stock-Based Compensation Plans.

## 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 \$273 million

and \$277 million as of Nov. 30, 2017, and Aug. 31, 2017, 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, 2017.

**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, 2017, 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

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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. Payment of the \$280 million was made November 2016 through December 2017 covering all claimants. 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.

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 3,600 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, 2017. 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, 2017.

**Off-Balance Sheet Arrangement:** In the first quarter of fiscal 2018, Monsanto completed 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)

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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 are allocated between segments based on the segment's relative contribution to total Monsanto operations. Allocation percentages remain consistent for fiscal years 2017 and 2018.

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<br>Ended |                     |
|---------------------------------------|-----------------------|---------------------|
|                                       | Nov.<br>30,<br>2017   | Nov.<br>30,<br>2016 |
| Net Sales <sup>(1)</sup>              |                       |                     |
| Corn seed and traits                  | \$787                 | \$949               |
| Soybean seed and traits               | 728                   | 600                 |
| Cotton seed and traits                | 120                   | 116                 |
| Vegetable seeds                       | 114                   | 131                 |
| All other crops seeds and traits      | 21                    | 52                  |
| Total Seeds and Genomics              | \$1,770               | \$1,848             |
| Agricultural productivity             | 888                   | 802                 |
| Total Agricultural Productivity       | \$888                 | \$802               |
| Total                                 | \$2,658               | \$2,650             |
| Gross Profit                          |                       |                     |
| Corn seed and traits                  | \$415                 | \$535               |
| Soybean seed and traits               | 588                   | 451                 |
| Cotton seed and traits                | 73                    | 73                  |
| Vegetable seeds                       | 58                    | 69                  |
| All other crops seeds and traits      | (2)                   | 12                  |
| Total Seeds and Genomics              | \$1,132               | \$1,140             |
| Agricultural productivity             | 180                   | 119                 |
| Total Agricultural Productivity       | \$180                 | \$119               |
| Total                                 | \$1,312               | \$1,259             |
| EBIT <sup>(2)(3)(4)</sup>             |                       |                     |
| Seeds and Genomics                    | \$302                 | \$199               |
| Agricultural Productivity             | 38                    | 13                  |
| Total                                 | \$340                 | \$212               |
| Depreciation and Amortization Expense |                       |                     |
| Seeds and Genomics                    |                       | \$149               |
| Agricultural Productivity             | 39                    | 46                  |

Total \$188\$189

(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.

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 NOTES TO THE CONSOLIDATED FINANCIAL  
 STATEMENTS – UNAUDITED (continued)

(3) Agricultural Productivity EBIT includes income from operations of discontinued businesses of \$2 million and \$16 million for the three months ended Nov. 30, 2017, and Nov. 30, 2016, respectively.

(4) Seeds and Genomics EBIT includes income from operations of noncontrolling interests of \$2 million and \$8 million for the three months ended Nov. 30, 2017, and Nov. 30, 2016, respectively.

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

|                                             | Three<br>Months<br>Ended<br>Nov. 30,<br>2017 | Nov. 30,<br>2016 |
|---------------------------------------------|----------------------------------------------|------------------|
| (Dollars in millions)                       |                                              |                  |
| EBIT <sup>(1)</sup>                         | \$340                                        | \$212            |
| Interest Expense — Net                      | 109                                          | 118              |
| Income Tax Provision <sup>(2)</sup>         | 62                                           | 65               |
| Net Income Attributable to Monsanto Company | \$169                                        | \$29             |

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

(2) Includes the income tax provisions on discontinued operations and noncontrolling interests.

#### NOTE 20. SUBSEQUENT EVENTS

On Dec. 4, 2017, the Board of Directors declared a quarterly dividend on its common shares of 54 cents per share. The dividend is payable on Jan. 26, 2018, to shareowners of record on Jan. 5, 2018.

On Dec. 15, 2017, Monsanto gave notice it will redeem all of the outstanding 4.30% Notes, due Jan. 29, 2045 (“Notes”) in accordance with the terms and conditions of the Notes and related indenture on Jan. 29, 2018.

On Dec. 22, 2017, the United States enacted new tax legislation, the Tax Cuts and Jobs Act. The company is currently in the process of evaluating the impact this law will have on the consolidated financial statements and calculating the related impact to the company’s tax expense. The company expects the largest impact to the company from this legislation to be from the provisions that lower the corporate tax rate to 21% beginning on Jan. 1, 2018, and impose tax on earnings outside the United States that have previously not been subject to United States tax, which must be paid beginning in fiscal 2019 through fiscal 2026. The adjustments to the company’s tax expense for this legislation could materially affect the consolidated financial statements and will be recorded beginning in the period of enactment.

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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 Ruiter, 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 XtendiMax Herbicide with VaporGrip Technology 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, 2017. Financial information for the first three months of fiscal year 2018 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 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 months ended Nov. 30, 2017, and Nov. 30, 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 of 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 free cash flow is useful to investors and management as a measure of the ability of our business to generate cash. Once business

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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. Free cash flow is also used as one of the performance measures in determining incentive compensation. 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 \$8 million in the three month comparison. The primary contributors to the increase were driven by soybean seed and traits and agricultural productivity, offset by a net sales decrease in corn seed and traits. The net sales increase in soybean seed and traits was primarily driven by increased Intacta RR2 PRO penetration in South America. The increase in agricultural productivity reflects higher average net selling price of Roundup and other glyphosate-based herbicides. The net sales decrease in corn seed and traits was driven by lower volumes. A significant portion of this was in the United States and is expected to be recovered later in fiscal 2018, and some was related to lower acres in the first season in Brazil.

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 \$0.38 per share in the first quarter of fiscal 2018, compared to \$0.07 per share in the first quarter of fiscal 2017.

Financial Condition, Liquidity and Capital Resources — At Nov. 30, 2017, working capital was \$2,302 million compared with \$2,152 million at Nov. 30, 2016, an increase of \$150 million, and compared with \$2,253 million at Aug. 31, 2017, an increase of \$49 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 three months of fiscal 2018, net cash provided by operating activities was \$1,292 million compared with \$1,463 million provided in the first three months of fiscal 2017. Net cash required by investing activities was \$210 million in the first three months of fiscal 2018 compared with \$327 million in the first three months of fiscal 2017. Net cash provided by financing activities was \$178 million in the first three months of fiscal 2018 compared with net cash required by financing activities of \$655 million in the first three months of fiscal 2017. Free cash flow was an inflow of \$874 million in the first three months of fiscal 2018 compared with an inflow of \$1,146 million in the first three months of fiscal 2017. 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 Nov. 30, 2017, our debt-to-capital ratio was 55 percent compared with 56 percent at Aug. 31, 2017. The one percentage point decrease from Aug. 31, 2017, was primarily due to an increase in shareowners’ equity resulting from earnings during fiscal 2018.

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 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”), which has been completed, (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

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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 research and development (“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 Monsanto’s Roundup Ready crops strategically 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, 2017.

**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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## MONSANTO COMPANY FIRST QUARTER 2018 FORM 10-Q

## RESULTS OF OPERATIONS

| (Dollars in millions, except per share amounts)                                             | Three Months Ended |               |                      |    |
|---------------------------------------------------------------------------------------------|--------------------|---------------|----------------------|----|
|                                                                                             | Nov. 30, 2017      | Nov. 30, 2016 | Increase/ (Decrease) |    |
| Net Sales                                                                                   | \$2,658            | \$2,650       | —                    | %  |
| Cost of goods sold                                                                          | 1,346              | 1,391         | (3)                  | %  |
| Gross Profit                                                                                | 1,312              | 1,259         | 4                    | %  |
| Operating Expenses:                                                                         |                    |               |                      |    |
| Selling, general and administrative expenses                                                | 664                | 585           | 14                   | %  |
| Research and development expenses                                                           | 382                | 370           | 3                    | %  |
| Restructuring charges                                                                       | 4                  | (36)          | )                    | NM |
| Pending Bayer transaction related costs                                                     | 20                 | 93            | (78)                 | %  |
| Total Operating Expenses                                                                    | 1,070              | 1,012         | 6                    | %  |
| Income from Operations                                                                      | 242                | 247           | (2)                  | %  |
| Interest expense                                                                            | 124                | 136           | (9)                  | %  |
| Interest income                                                                             | (15)               | (18)          | (17)                 | %  |
| Other (income) expense, net                                                                 | (97)               | 43            | NM                   |    |
| Income from Continuing Operations Before Income Taxes                                       | 230                | 86            | NM                   |    |
| Income tax provision                                                                        | 60                 | 61            | (2)                  | %  |
| Income from Continuing Operations Including Portion Attributable to Noncontrolling Interest | \$170              | \$25          | NM                   |    |
| Discontinued Operations:                                                                    |                    |               |                      |    |
| Income from operations of discontinued business                                             | 2                  | 16            | (88)                 | %  |
| Income tax provision                                                                        | 1                  | 6             | (83)                 | %  |
| Income from Discontinued Operations                                                         | 1                  | 10            | (90)                 | %  |
| Net Income                                                                                  | \$171              | \$35          | NM                   |    |
| Less: Net income attributable to noncontrolling interest                                    | 2                  | 6             | (67)                 | %  |
| Net Income Attributable to Monsanto Company                                                 | \$169              | \$29          | NM                   |    |
| Diluted Earnings per Share Attributable to Monsanto Company:                                |                    |               |                      |    |
| Income from continuing operations                                                           | \$0.38             | \$0.05        | NM                   |    |
| Income from discontinued operations                                                         | —                  | 0.02          | NM                   |    |
| Net Income Attributable to Monsanto Company                                                 | \$0.38             | \$0.07        | NM                   |    |
| NM = Not Meaningful                                                                         |                    |               |                      |    |
| Effective Tax Rate                                                                          | 26                 | %71           | %                    |    |
| Comparison as a Percent of Net Sales:                                                       |                    |               |                      |    |
| Cost of goods sold                                                                          | 51                 | %52           | %                    |    |
| Gross profit                                                                                | 49                 | %48           | %                    |    |
| Selling, general and administrative expenses                                                | 25                 | %22           | %                    |    |
| Research and development expenses                                                           | 14                 | %14           | %                    |    |
| Total operating expenses                                                                    | 40                 | %38           | %                    |    |
| Income from continuing operations before income taxes                                       | 9                  | %3            | %                    |    |
| Net income attributable to Monsanto Company                                                 | 6                  | %1            | %                    |    |

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## MONSANTO COMPANY FIRST QUARTER 2018 FORM 10-Q

## First Quarter Fiscal Year 2018

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

Net sales increased \$8 million in the first quarter of fiscal 2018 from the same quarter a year ago. Our Seeds and Genomics segment net sales decreased \$78 million, and our Agricultural Productivity segment net sales increased \$86 million in the three-month comparison.

The following table presents the percentage increase/(decrease) in first quarter of fiscal 2018 worldwide net sales by segment compared with net sales in the prior year quarter, including the effects of volume, price and currency:

|                                   | First Quarter 2018<br>Percentage Change in Net<br>Sales vs. First Quarter 2017 |       |          |       |
|-----------------------------------|--------------------------------------------------------------------------------|-------|----------|-------|
|                                   | Volume                                                                         | Price | Currency | Total |
| Seeds and Genomics Segment        | (11)%                                                                          | 6%    | 1%       | (4)%  |
| Agricultural Productivity Segment | 4%                                                                             | 6%    | 1%       | 11%   |
| Total Monsanto Company            | (7)%                                                                           | 6%    | 1%       | —%    |

Cost of goods sold for the total company decreased \$45 million, or three 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 51 percent. Our Seeds and Genomics segment cost of goods sold as a percent of Seeds and Genomics net sales decreased two percentage points to 36 percent, and our Agricultural Productivity segment cost of goods sold as a percent of Agricultural Productivity net sales decreased five percentage points to 80 percent.

The following table represents the percentage increase/(decrease) in first quarter of fiscal 2018 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:

|                                   | First Quarter 2018 Percentage<br>Change in Cost of Goods Sold<br>vs. First Quarter 2017 |                      |          |       |
|-----------------------------------|-----------------------------------------------------------------------------------------|----------------------|----------|-------|
|                                   | Volume                                                                                  | Costs <sup>(1)</sup> | Currency | Total |
| Seeds and Genomics Segment        | (11)%                                                                                   | 1%                   | —%       | (10)% |
| Agricultural Productivity Segment | 5%                                                                                      | (2)%                 | 1%       | 4%    |
| Total Monsanto Company            | (3)%                                                                                    | (1)%                 | 1%       | (3)%  |

Seeds and Genomics segment included \$10 million and \$1 million of restructuring charges related to facility closures and exits costs from our supply chain operations and discontinued products during the first quarter of fiscal 2018 and 2017, respectively. Agricultural Productivity segment included \$3 million of restructuring charges related to exit costs related to our manufacturing facilities during the first quarter of fiscal 2018. There were no restructuring charges during the first quarter of fiscal 2017 included in the Agricultural Productivity segment. See Item 1 — Financial Statements — Note 3 — Restructuring — for further information.

Gross profit increased \$53 million in the three-month comparison. Gross profit as a percent of net sales for the total company increased one percentage point to 49 percent in the first quarter of fiscal 2018. Our Seeds and Genomics segment gross profit as a percent of Seed and Genomics net sales increased two percentage points to 64 percent, and our Agricultural Productivity segment gross profit as a percent of Agricultural Productivity net sales increased five 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 \$58 million in the first quarter of fiscal 2018 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”), restructuring charges and R&D quarter over quarter, partially offset by a decrease in pending Bayer transaction related costs.

In the first quarter of fiscal 2018, SG&A expenses increased \$79 million, and R&D expenses increased \$12 million. SG&A increased primarily due to an increase in commission expense in South America and bad debt expense due to the growth of Intacta RR2 PRO in South America.

As a percent of net sales, SG&A expenses increased three percentage points to 25 percent, and R&D expenses remained consistent at 14 percent for the first quarter of fiscal 2018 compared to the prior year quarter.

Restructuring charges fluctuated \$40 million resulting in an expense of \$4 million in the first quarter of fiscal 2018 compared to a net reversal of expense of \$36 million in the first quarter of fiscal 2017. The three months ended Nov. 30, 2016, included the

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## MONSANTO COMPANY FIRST QUARTER 2018 FORM 10-Q

reversal of \$45 million of previously recognized expense due to changes in estimates related to work force reductions. See discussion of the 2015 Restructuring Plan in Item 1 — Financial Statements — Note 3 — Restructuring.

In the first quarter of fiscal 2018, costs related to the pending Bayer transaction were \$20 million compared to \$93 million in the first quarter of fiscal 2017.

Other (income) expense — net was \$97 million of income in the first quarter of fiscal 2018, a \$140 million change from expense of \$43 million in the first quarter of fiscal 2017. The fluctuation was primarily due to gains of approximately \$85 million from the sale of assets, of which approximately \$52 million was recorded on the sale of the Precision Planting equipment business, and the absence of a loss of \$37 million that was reclassified into earnings in fiscal 2017 as a result of the discontinuance of an interest rate hedge.

Income tax provision was \$60 million in the first quarter of fiscal 2018, a decrease of \$1 million from the prior year quarter. This decrease was primarily driven by lower tax in Argentina resulting from a reduction in valuation allowance that was partially offset by an increase in tax expense due to an increase in total pretax income. The effective tax rate decreased to 26 percent from 71 percent in the first quarter of fiscal 2017, primarily due to the reduction in valuation allowance in Argentina.

**SEEDS AND GENOMICS SEGMENT**

| (Dollars in millions)            | Three Months Ended  |                     |                         |   |
|----------------------------------|---------------------|---------------------|-------------------------|---|
|                                  | Nov.<br>30,<br>2017 | Nov.<br>30,<br>2016 | Increase/<br>(Decrease) |   |
| Net Sales                        |                     |                     |                         |   |
| Corn seed and traits             | \$787               | \$949               | (17)                    | % |
| Soybean seed and traits          | 728                 | 600                 | 21                      | % |
| Cotton seed and traits           | 120                 | 116                 | 3                       | % |
| Vegetable seeds                  | 114                 | 131                 | (13)                    | % |
| All other crops seeds and traits | 21                  | 52                  | (60)                    | % |
| Total Net Sales                  | \$1,770             | \$1,848             | (4)                     | % |
| Gross Profit                     |                     |                     |                         |   |
| Corn seed and traits             | \$415               | \$535               | (22)                    | % |
| Soybean seed and traits          | 588                 | 451                 | 30                      | % |
| Cotton seed and traits           | 73                  | 73                  | —                       | % |
| Vegetable seeds                  | 58                  | 69                  | (16)                    | % |
| All other crops seeds and traits | (2)                 | 12                  | (117)                   | % |
| Total Gross Profit               | \$1,132             | \$1,140             | (1)                     | % |
| EBIT <sup>(1)</sup>              | \$302               | \$199               | 52                      | % |

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 — First Quarter Fiscal Year 2018**

Net sales for the Seeds and Genomics segment decreased \$78 million in the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017. The net sales decrease of \$162 million in corn seed and traits was primarily driven by lower volumes. A significant portion of this was in the United States and is expected to be recovered later in fiscal 2018, and some was related to lower acres in the first season in Brazil. The net sales decrease in corn seed and traits was partially offset by a net sales increase of \$128 million within soybean seed and traits primarily driven by increased Intacta RR2 PRO penetration in South America.

Cost of goods sold in the Seeds and Genomics segment primarily represents field growing, plant processing and distribution costs. Cost of goods sold decreased \$70 million, or ten percent, to \$638 million in the first quarter of fiscal 2018 compared to \$708 million in the first quarter of fiscal 2017. The decrease was primarily the result of lower sales volumes in corn seed and traits as noted in the net sales discussion.

Gross profit for the Seeds and Genomics segment decreased \$8 million in the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017. The decrease in gross profit was primarily due to lower volume in corn seeds and traits as noted in the net sales discussion. This decrease was offset by soybean seed and traits gross profit increasing due to increased Intacta RR2 PRO penetration in South America also noted in the net sales discussion.

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## MONSANTO COMPANY FIRST QUARTER 2018 FORM 10-Q

Gross profit as a percent of net sales for the segment increased to 64 percent in the first quarter of fiscal 2018 compared to 62 percent in the first quarter of fiscal 2017.

**AGRICULTURAL PRODUCTIVITY SEGMENT**

|                       | Three Months<br>Ended<br>Nov. 30,<br>2017 | Nov. 30,<br>2016 | Increase |
|-----------------------|-------------------------------------------|------------------|----------|
| (Dollars in millions) |                                           |                  |          |

**Net Sales**

|                           |       |       |      |
|---------------------------|-------|-------|------|
| Agricultural productivity | \$888 | \$802 | 11 % |
|---------------------------|-------|-------|------|

|                 |       |       |      |
|-----------------|-------|-------|------|
| Total Net Sales | \$888 | \$802 | 11 % |
|-----------------|-------|-------|------|

**Gross Profit**

|                           |       |       |      |
|---------------------------|-------|-------|------|
| Agricultural productivity | \$180 | \$119 | 51 % |
|---------------------------|-------|-------|------|

|                    |       |       |      |
|--------------------|-------|-------|------|
| Total Gross Profit | \$180 | \$119 | 51 % |
|--------------------|-------|-------|------|

|                     |      |      |    |
|---------------------|------|------|----|
| EBIT <sup>(1)</sup> | \$38 | \$13 | NM |
|---------------------|------|------|----|

NM = Not Meaningful

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 — First Quarter Fiscal Year 2018**

Net sales in our Agricultural Productivity segment increased by \$86 million in the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017 primarily due to higher 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 \$25 million, or four percent, in the first quarter of fiscal 2018 to \$708 million compared to \$683 million in the first quarter of fiscal 2017.

The net sales and cost of goods sold discussed above resulted in higher gross profit of \$61 million in the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017. Gross profit as a percent of net sales for the Agricultural Productivity segment increased to 20 percent in the first quarter of fiscal 2018 compared to 15 percent in the first quarter of fiscal 2017.

**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 in the range of \$900 million to \$965 million. 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: \$325 million to \$335 million in work force reductions, including severance and related benefits; \$95 million to \$130 million in facility closures/exit costs, including contract termination costs; \$480 million to \$500 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.

For the three months ended Nov. 30, 2017, pretax restructuring charges of \$17 million were recorded within the Statement of Consolidated Operations, of which \$13 million and \$4 million were included in cost of goods sold and restructuring charges, respectively. For the three months ended Nov. 30, 2016, a pretax net reversal of restructuring

charges of \$35 million was recorded within the Statement of Consolidated Operations, of which \$1 million of expense and a net reversal of \$36 million of previously recognized expense 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               |                     |                     |
|--------------------------------------------------------------|---------------------|---------------------|---------------------|
|                                                              | Nov.<br>30,<br>2017 | Nov.<br>30,<br>2016 | Aug.<br>31,<br>2017 |
| (Dollars in millions, except current ratio)                  |                     |                     |                     |
| Cash and Cash Equivalents <sup>(1)</sup>                     | \$3,102             | \$2,129             | \$1,856             |
| Trade Receivables, Net <sup>(1)</sup>                        | 2,115               | 2,196               | 2,161               |
| Inventory, Net                                               | 4,033               | 3,839               | 3,340               |
| Other Current Assets <sup>(1)(2)</sup>                       | 1,310               | 1,488               | 1,294               |
| Total Current Assets                                         | \$10,560            | \$9,652             | \$8,651             |
| Short-Term Debt, Including Current Portion of Long-Term Debt | \$1,168             | \$570               | \$870               |
| Accounts Payable <sup>(1)</sup>                              | 1,194               | 1,073               | 1,068               |
| Accrued Liabilities <sup>(1)(3)</sup>                        | 5,896               | 5,857               | 4,460               |
| Total Current Liabilities                                    | \$8,258             | \$7,500             | \$6,398             |
| Working Capital <sup>(4)</sup>                               | \$2,302             | \$2,152             | \$2,253             |
| Current Ratio <sup>(4)</sup>                                 | 1.28:1              | 1.29:1              | 1.35:1              |

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.

(2) Includes short-term investments, miscellaneous receivables, assets held for sale and other current assets.

Includes income taxes payable, accrued compensation and benefits, accrued marketing programs, deferred

(3) revenues, grower production accruals, dividends payable, customer payable, restructuring reserves and miscellaneous short-term accruals.

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

Nov. 30, 2017, compared with Aug. 31, 2017: Working capital increased \$49 million, or two percent, between Aug. 31, 2017, and Nov. 30, 2017, primarily because of the following factors:

Cash and cash equivalents increased \$1,246 million between the respective periods primarily due to cash from operating activities and an increase in book overdrafts partially offset by the payment of dividends during the period and cash required by investing activities.

Inventory increased \$693 million between the respective periods primarily due to the seasonality of our corn seed business in the United States and Europe in which the fall harvest of seed products occurs in the first quarter of the fiscal year.

Other current assets increased \$16 million primarily due to an increase in income taxes recoverable partially offset by a decrease of assets held for sale related to the sale of the Precision Planting equipment business.

These increases to working capital between Nov. 30, 2017, and Aug. 31, 2017, were partially offset by the following factors:

Short-term debt, including the current portion of long-term debt, increased \$298 million between the respective periods primarily due to \$300 million of senior notes reclassified from long-term debt to short term debt.

Accounts payable increased \$126 million between the respective periods primarily due to the timing of payments.

Accrued liabilities increased \$1,436 million between the respective periods primarily due to the following fluctuations:

Deferred revenues increased \$2,392 million due to customer prepayments in the United States that occurred in the first quarter of fiscal 2018 partially offset by recognition of Intacta RR2 PRO prepayments in Brazil from fiscal 2017.

Grower production accruals increased \$371 million primarily due to deliveries in advance of the 2018 fiscal year selling season as a result of the seasonality of our business.

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

Accrued compensation and benefits decreased \$310 million primarily due to the payment of fiscal 2017 incentive accruals partially offset by current year incentive accruals.

Accrued marketing programs decreased \$725 million between the respective periods primarily due to the seasonality of our business and the timing of payments.

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Dividends payable decreased \$237 million due to the timing of dividend declaration and payments.

Nov. 30, 2017, compared with Nov. 30, 2016: Working capital increased \$150 million between Nov. 30, 2016, and Nov. 30, 2017, primarily because of the following factors:

Cash and cash equivalents increased \$973 million between the respective periods primarily due to cash provided by operating activities, cash provided by financing with less than 90-day maturities and proceeds from stock options exercised partially offset by cash required by investing activities and the payment of debt and dividends during the period.

Inventory increased \$194 million between the respective periods primarily due to higher production of seed and traits inventory.

These increases to working capital between Nov. 30, 2017, and Nov. 30, 2016, were offset by the following factors:

Trade receivables, net decreased \$81 million between the respective periods primarily due to the write off of certain receivable balances in Latin America.

Other current assets decreased \$178 million primarily due to a decrease in assets held for sale of \$223 million as assets related to the Precision Planting equipment business were sold during the first quarter of fiscal 2018 and packaging materials previously included in assets held for sale were reclassified from assets held for sale to other assets.

Short-term debt, including the current portion of long-term debt, increased \$598 million between the respective periods primarily due to reclassifications of long-term debt to short-term partially offset by repayments of senior notes.

Accounts payable increased \$121 million between the respective periods primarily due to the timing of payments.

Accrued liabilities increased \$39 million between the respective periods primarily due to the following:

Accrued compensation and benefits increased \$56 million primarily due to the timing of accrued wages and increased current year incentive accruals compared to prior year.

Accrued marketing programs increased \$155 million primarily due to increased accruals in the United States and increased Brazil accruals due to higher Intacta RR2 PRO soybean revenues.

Deferred revenue increased \$212 million primarily due to higher prepayments in the United States and higher credit balance reclassifications from accounts receivable to deferred revenue due to the right of set off as a result of lower net sales.

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

Income taxes payable decreased \$88 million primarily due to payments of accrued liabilities that reduced taxable income.

Restructuring reserves decreased \$98 million as a result of payments made under the 2015 Restructuring Plan and changes in estimates related to work force reductions.

Miscellaneous short-term accruals decreased \$180 million primarily due to a decrease in amounts due to a third party related to trade receivables sold.

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 Nov. 30, 2017, the programs had \$283 million in outstanding balances, and we received \$21 million of proceeds during the first three months of fiscal 2018 under these programs. Our future maximum payout under the programs, including our responsibility for our guarantees with lenders, was \$70 million as of Nov. 30, 2017. See Item 1 — Financial Statements — Note 4 — Customer Financing Programs — for further discussion of these programs.

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## MONSANTO COMPANY FIRST QUARTER 2018 FORM 10-Q

## Cash Flow

|                                                              | Three Months<br>Ended |                     |
|--------------------------------------------------------------|-----------------------|---------------------|
|                                                              | Nov.<br>30,<br>2017   | Nov.<br>30,<br>2016 |
| (Dollars in millions)                                        |                       |                     |
| Net Cash Provided by Operating Activities                    | \$1,292               | \$1,463             |
| Net Cash Required by Investing Activities                    | (210 )                | (327 )              |
| Net Cash Provided (Required) by Financing Activities         | 178                   | (655 )              |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | (14 )                 | (28 )               |
| Net Increase in Cash and Cash Equivalents                    | \$1,246               | \$453               |

|                                           | Three Months<br>Ended |                     |
|-------------------------------------------|-----------------------|---------------------|
|                                           | Nov.<br>30,<br>2017   | Nov.<br>30,<br>2016 |
| (Dollars in millions)                     |                       |                     |
| Net Cash Provided by Operating Activities | \$1,292               | \$1,463             |
| Capital Expenditures                      | (418 )                | (317 )              |
| Free Cash Flow <sup>(1)</sup>             | \$874                 | \$1,146             |

(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 decrease in cash provided by operating activities in the first three months of fiscal 2018 compared to the first three months of fiscal 2017 was primarily due to more cash required for trade payables, incentives, amounts due to a third party related to trade receivables sold, market funding and taxes compared to the prior period. These decreases in cash provided by operating activities were partially offset by increased net income compared to prior year, more accounts receivable collections compared to the prior period due to timing, absence of the cash payment related to the PCB settlement described in Item 1 — Financial Statements — Note 18 — Commitments and Contingencies and a decrease in restructuring reserves due to less payments and changes in estimates related to work force reductions under the 2015 Restructuring Plan.

Investing: Cash required by investing activities in the first three months of fiscal 2018 decreased compared to the first three months of fiscal 2017 due to proceeds received from the sale of the Precision Planting equipment business, partially offset by an increase in capital expenditures related to the construction of a dicamba-based herbicide manufacturing facility in Luling, Louisiana.

Financing: The increase in cash provided by financing activities in the first three months of fiscal 2018 compared to the first three months of fiscal 2017 was primarily due to book overdrafts in fiscal 2018 and repayment of commercial paper in fiscal 2017 that did not occur in fiscal 2018.

## Capital Resources and Liquidity

|                                                     | As of            |                  |                  |
|-----------------------------------------------------|------------------|------------------|------------------|
|                                                     | Nov. 30,<br>2017 | Nov. 30,<br>2016 | Aug. 31,<br>2017 |
| (Dollars in millions, except debt-to-capital ratio) |                  |                  |                  |
| Short-Term Debt                                     | \$1,168          | \$570            | \$870            |
| Long-Term Debt                                      | 6,949            | 8,047            | 7,254            |
| Total Monsanto Company Shareowners' Equity          | 6,601            | 4,402            | 6,438            |
| Debt-to-Capital Ratio <sup>(1)</sup>                | 55               | %66              | %56              |

(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 no commercial paper borrowings outstanding as of Nov. 30, 2017.

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.

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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 Nov. 30, 2017, we did not have any borrowings under this credit facility, and we were in compliance with all debt covenants.

In October 2016, we entered into 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 Nov. 30, 2017.

Proceeds were used for general corporate purposes.

On Dec. 15, 2017, we gave notice we will redeem all of the outstanding 4.30% Notes, due Jan. 29, 2045 (“Notes”) in accordance with the terms and conditions of the Notes and related indenture on Jan. 29, 2018.

As of Nov. 30, 2017, our debt-to-capital ratio was 55 percent compared with 56 percent at Aug. 31, 2017, and 66 percent at Nov. 30, 2016. The one percentage point decrease from Aug. 31, 2017, was primarily due to an increase in shareowners’ equity resulting from earnings during fiscal 2018. The 11 percentage point decrease from Nov. 30, 2016, was primarily driven by an increase in shareowners’ equity resulting from earnings partially offset by the payment of dividends and a decrease in debt outstanding at Nov. 30, 2017, compared to Nov. 30, 2016.

We held cash and cash equivalents and short-term investments of \$3,103 million and \$1,864 million as of Nov. 30, 2017, and Aug. 31, 2017, respectively, of which \$922 million and \$1,281 million was held by foreign entities, respectively. As of Nov. 30, 2017, our intent is to indefinitely reinvest approximately \$4.2 billion of the \$4.5 billion of undistributed earnings of our foreign operations that existed as of Aug. 31, 2017. As a result of the Tax Cuts and Jobs Act that was enacted on Dec. 22, 2017, we will incur a tax liability for our undistributed earnings that will be recorded in the period of enactment. We are currently evaluating the impact of the new law and computing the adjustment to our tax expense.

**Dividends:** There were no dividends declared in the first quarter of fiscal 2018. On Dec. 4, 2017, we declared a quarterly dividend on our common shares of \$0.54 per share related to the our first quarter of fiscal 2018 that is payable on Jan. 26, 2018, to shareowners of record on Jan. 5, 2018.

**Pension Contributions:** As of Nov. 30, 2017, we have not made any contributions to our U.S. qualified pension plan. Based on the funded status of our plan, we are not required to make any contributions. However, we expect to contribute \$60 million during fiscal 2018.

**2016 Disposal:** On Jul. 25, 2017, we signed a definitive agreement with AGCO Corporation to sell the Precision Planting equipment business for approximately \$200 million in cash, subject to customary working capital adjustments. In the first quarter of fiscal 2018, we closed on the sale of the Precision Planting equipment business, and a gain of approximately \$52 million was recognized within other (income) expense, net in the Statement of Consolidated Operations.

**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, 2017.

**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.

In the first quarter of fiscal 2018, we completed 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 providing external financing opportunities for our customers as a way to manage receivables for each of our segments.

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 and Ukraine, including changes to exchange rate mechanisms or structures, and the potential impact on future periods. Subsequent to recent currency devaluations in Argentina, we continue to monitor the economic situations and the impact of currency volatility on earnings.

On Dec. 22, 2017, the United States enacted new tax legislation, the Tax Cuts and Jobs Act. We are currently in the process of evaluating the impact this law will have on the consolidated financial statements and calculating the related impact to our tax expense. We expect the largest impact to us from this legislation to be from the provisions that lower the corporate tax rate to 21% beginning on Jan. 1, 2018, and impose tax on earnings outside the United States that have previously not been subject to United States tax, which must be paid beginning in fiscal 2019 through fiscal 2026. The adjustments to our tax expense for this legislation could materially affect the consolidated financial statements and will be recorded beginning in the period of enactment.

On Sept. 14, 2016, we entered into the Merger Agreement with Bayer, which provides for the acquisition of the company by Bayer for a price of \$128 per share in cash. Upon consummation of the Merger, we will no longer be a standalone public company. The combined business is expected to benefit from the integration of Monsanto's seeds and traits business and The Climate Corporation platform with Bayer's broad crop protection product line, which we believe will result in significant benefits for farmers.

Seeds and Genomics

Our capabilities in plant breeding and biotechnology R&D 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, breeding, 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 of 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 customers 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.

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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 and key local elevators have enrolled in the point-of-delivery system. 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.

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 systems and focus on cash collection and sales, as part of a continuous effort to manage our risk in Brazil and Argentina against such volatility.

**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 our Roundup Ready crops strategically 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, 2017.

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**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, 2017. 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 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, 2017. 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, 2017.

**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 Nov. 30, 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 Nov. 30, 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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## MONSANTO COMPANY FIRST QUARTER 2018 FORM 10-Q

## 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, 2017.

## 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, 2017, 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 first quarter of fiscal year 2018 by Monsanto and any affiliated purchasers, pursuant to SEC rules.

| Period                                | (a) Total Number of<br>Shares Purchased | (b) Average Price Paid<br>per Share <sup>(1)</sup> | (c) Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced Plans<br>or Programs | (d) Approximate Dollar<br>Value of Shares that May<br>Yet Be Purchased Under<br>the Plans or Programs |
|---------------------------------------|-----------------------------------------|----------------------------------------------------|--------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| September 2017:                       |                                         |                                                    |                                                                                                  |                                                                                                       |
| Sept. 1, 2017, through Sept. 30, 2017 | 28                                      | (2) \$ 119.82                                      | —                                                                                                | \$ —                                                                                                  |
| October 2017:                         |                                         |                                                    |                                                                                                  |                                                                                                       |
| Oct. 1, 2017, through Oct. 31, 2017   | 28                                      | (2) \$ 121.11                                      | —                                                                                                | \$ —                                                                                                  |
| November 2017:                        |                                         |                                                    |                                                                                                  |                                                                                                       |
| Nov. 1, 2017, through Nov. 30, 2017   | 28                                      | (2) \$ 118.36                                      | —                                                                                                | \$ —                                                                                                  |
| Total                                 | 84                                      | \$ 119.76                                          | —                                                                                                | \$ —                                                                                                  |

(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 Nov. 30, 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

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EXHIBIT INDEX

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

| Exhibit No. | Description                                                                                                                                                                                                                                           |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2           | Omitted                                                                                                                                                                                                                                               |
| 3           | Omitted                                                                                                                                                                                                                                               |
| 4           | Omitted                                                                                                                                                                                                                                               |
| 10          | <u>Form of Change of Control Employment Security Agreement for Messrs. Begemann, Fraley, Grant and Snively, effective Sept. 1, 2010 (incorporated by reference to Exhibit 10 of Form 8-K, filed on Sept. 7, 2010, File No. 1-16167).</u> <sup>†</sup> |
| 11          | Omitted — see Note 16 of Notes to Consolidated Financial Statements — Earnings Per Share.                                                                                                                                                             |
| 12          | <u>Computation of Ratio of Earnings to Fixed Charges.</u>                                                                                                                                                                                             |
| 15          | Omitted                                                                                                                                                                                                                                               |
| 18          | Omitted                                                                                                                                                                                                                                               |
| 19          | Omitted                                                                                                                                                                                                                                               |
| 22          | Omitted                                                                                                                                                                                                                                               |
| 23          | Omitted                                                                                                                                                                                                                                               |
| 24          | Omitted                                                                                                                                                                                                                                               |
| 31.1        | <u>Rule 13a-14(a) Certifications (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by the Chief Executive Officer).</u>                                                                                                            |
| 31.2        | <u>Rule 13a-14(a) Certifications (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by the Chief Financial Officer).</u>                                                                                                            |
| 32          | <u>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).</u>                                                                            |
| 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.                                                                                                                                                                                               |

<sup>†</sup> Represents management contract or compensatory plan or arrangement.

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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: January 5, 2018