

Letter to Shareowners

We succeed when farmers succeed.

That's the simple way to think about our performance, our quest for innovation, and our growth prospects for the future. Ultimately, that simple statement also explains how we return value to our shareowners.

Our success in 2005 stems from some basic business tenets: Know what your customer wants, deliver products that meet those needs, and invest in the new technologies that anticipate future customer demands.

We were able to do all three this year. And, the delivery on those tenets is not a story of isolated success. It is another data point in a series of strategic milestones that translate to solid financial performance this year, and more importantly, to momentum as we look to grow our business in an expanding agricultural market.

Consider that in 2005:

We saw biotechnology grow again.

For the 10th consecutive year, farmers planted more Monsanto biotechnology traits than they did the previous year. Over the past five years, our total biotechnology trait penetration has grown at better than a 10 percent compound annual growth rate. That trait growth is coming in areas that reflect greater strategic opportunity for us. Notably, we see a rapid move in the marketplace to the combined package of stacked biotechnology traits.

This year we introduced the industry's first stack of three separate biotechnology traits in corn. Next year, we'll introduce our new *Roundup Ready* Flex cotton trait on a platform that will create the only stack of second-generation traits in any crop. In a market where we recognize that our customers are always looking for productivity, farmers are clearly voting for stacked traits.

We saw biotechnology make some regulatory breakthroughs.

Two years ago, progress in places such as Brazil and Europe was still just an aspiration. In 2005, though, we saw movement in both places. In Brazil, the approval of a biosafety bill by the government set in motion the first year of commercial planting of new *Roundup Ready* soybean seed in the world's second-largest soybean market.

In Europe, the import approval of *Roundup Ready* Corn 2 is expanding opportunities in key corn exporting markets such as the United States. Just a few years ago, without European approvals, we estimated the market opportunity in the United States for *Roundup Ready* corn at 20 million acres. In 2005, farmers planted more than 24 million acres. We now believe that there is an expanded opportunity for 60 million acres. This new estimate reflects both the European import approvals and the fact that *Roundup Ready* is increasingly the base for our stacked-trait combinations in corn.

Growing global corn market share

The seed a farmer buys says a lot about the value he places on the performance of that seed, as well as the innovation and resources that went into it. Again this past year, farmers saw the value in Monsanto's seed, reflected in our expanding position in global corn markets.

We're making gains in major regions such as the United States.

We're making gains in regions where our biotechnology traits are not a significant influencing factor, such as Europe. And we're making gains in smaller countries where the agricultural sector is larger than most people realize, such as South Africa.



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We saw our breeding technologies move to the forefront commercially. Our commercial opportunity doesn't revolve solely around biotechnology. Increasingly, it's also about breeding. In a simple market evaluation, the better seed usually wins. With an eye toward a discerning productivity-oriented market, we've put a lot of muscle behind the technology that allows us to breed better seed. This year we saw our fourth consecutive year of U.S. market share gain in our corn seed brands. Our cumulative gain was six share points during those four years. Now the power of our breeding technology is being recognized and rewarded not only in the United States, but throughout the world.

Each advance we made in 2005 is important in its own right. Taken collectively, they become a blueprint for our growth and leadership into the future.

Innovation breeds leadership

Almost 25 years ago, people at Monsanto made an early bet that the future of agriculture would not be in chemical solutions to farmer problems, but in biological ones.

Often, people assume that the only connection between agriculture and technology innovation involves biotechnology. Actually, we rely on two innovative engines – biotechnology and breeding. Biotechnology has been the more obvious, more talked about, and sometimes more controversial technology in the past few years. But, despite its significant commercial contribution, breeding is still largely an untold story.

To really understand these two engines and see how both provide compelling growth opportunities for us, it's important to understand our research in more detail: how these cutting-edge tools work, how breeding technology and biotechnology meld together, and how, ultimately, this delivers value to our customers. So this year we've

included in this report a special 10-page pullout section to highlight these tools and to show how they apply to our extraordinary pipeline.

These two engines power one of the most promising research-and-development pipelines in the industry. We've built a network of partnerships with technology innovators that complements the tremendous in-house capability we've cultivated over the past few decades. The result is that today we are testing more leads in the laboratories, in the greenhouses, and in the fields than ever before.

In 2005, we've seen significant progress. Near-term products showed good results in the field, including *Roundup Ready* Flex cotton, which is poised to launch in 2006, and products such as our second-generation *YieldGard* Corn Borer corn and *Roundup RReady2Yield* soybeans.

In the mid term, projects from our feed and food trait platforms represent families of products that create new opportunities in new market segments for us.

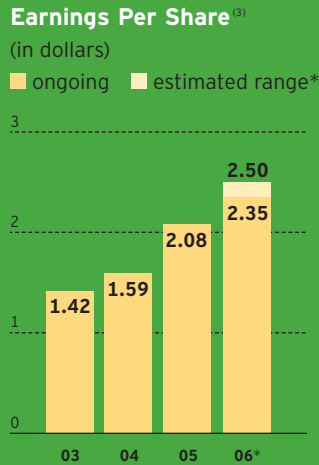
Longer-term projects, such as our drought-tolerance platform, are maturing into new families of potential products. Second-, third-, and fourth-generation traits are already being identified. New traits developed through our network of discovery capabilities and partnerships, such as corn that better utilizes nitrogen, are starting to emerge from the discovery phase.

We spend a lot of time talking about our technology and our tools, but you'll notice in our special pullout section that we've also taken the opportunity to highlight our employees. These are just a few of the more than 20,000 dedicated employees who are the real asset in our strategy. It is their creativity and hard work that has translated our innovation into a smart, customer-focused business.

Acceleration in the business

On the strength of our seeds-and-traits strategy, our core business is growing and poised for acceleration.

From fiscal year 2004 to fiscal year 2005, our earnings per share (EPS) on an ongoing business basis grew almost 31 percent. For fiscal year 2006, we believe ongoing EPS will grow up to an additional 20 percent from that accelerated 2005 base.



See page 18 for note 3 in the chart above.

I genuinely believe that a clear focus on innovation and adding value for our customers is, and should continue to be, our guiding light. That focus has generated great results in the past year and a sound platform for the future.

Leadership demands innovation

Today, we've completed our transition to a business based on growth in what we call the "seeds-and-traits" market. The success we had this fiscal year is a good indication that our innovation is being rewarded in the place that really matters: farmers' fields.

At Monsanto, research is not an academic exercise. The focus of our innovation is always on giving farmers new choices and opening new options that add value to their operations.

We talk a lot about the competitive dynamic of serving the farmer. For the farmer, it's an annual process. It's one that's decisive and based simply on performance. Farmers vote with their pocketbooks each year, and our innovation is rewarded one acre at a time.

For us, the process is ongoing. That year-by-year, acre-by-acre dynamic means we cannot take anything for granted – especially our leadership position.

Because we have been innovative, we are industry leaders. And, as leaders, we have an obligation to continue to innovate. The reality is that innovation breeds leadership, and that leadership demands innovation.

As leaders, we will always be challenged because the competitive market sets its sights on the highest target. We know that. We also know that complacency is the opening for that challenge. But inherent in our commitment to innovation is a commitment to press ahead with urgency and not allow complacency to creep in.

Today, our prospects for growth – and continued leadership – are as strong as ever. The early investment we made in innovative technology, backed by the decisions we've made and the results we've achieved in the past few years, are translating into great positive momentum. That momentum reflects these facts:

The seeds-and-traits industry is growing. The seeds-and-traits segment of the agricultural industry is today where the computer industry was in the 1950s. Even with the success we've seen in biotechnology and breeding technology in the past few years, we are still on the leading edge of a dynamic industry where technology will continue to revolutionize farming and how food is produced.

We have earned our leadership position in the industry. We've been the leader in the technological revolution that has taken place in agriculture during the last 10 years. We are already implementing the strategy that will allow us to be the leader for the next 10 years. We believe strongly that the qualities that differentiate us in this industry today – innovative research and strategic acumen – will continue to set us apart in the future.

We have invested for new growth. This year we made a number of key acquisitions. Seminis, Emergent's cotton seed business, and the companies in our American Seeds, Inc. subsidiary all open new opportunities for growth. Especially through Seminis, we're moving into "adjacent spaces," untapped commercial arenas where the breeding technology we have in hand has the potential to revolutionize the current commercial market the way our early technology transformed crops such as corn and soybeans a decade ago.

Monsanto is in a unique position. We are a technology company. And, importantly, we are a technology company that is built on an organizational focus, financial discipline, and a commitment to return value to our shareowners. We believe very strongly in the opportunity that is before us. Just as importantly, I know that the people of this company have the skill and dedication to make the most of that opportunity.

Hugh Grant
Chairman, President and Chief Executive Officer
Nov. 8, 2005