Innovation is an advantage only when it creates opportunity.

Monsanto’s early investment in the dual platforms of biotechnology and breeding has led to new products that give our farmer customers more choices for improving their productivity. Our capability in technology and our swift commercial delivery offer a unique combination that is opening new options for our customers, the industry, and our business.

Our business performance reflects the strategic value that our seeds-and-trait approach brings to the industry. More important, today’s business achievements position us well for continued acceleration in 2006 and beyond.

Farmer needs drive our approach

In the competitive seeds-and-trait industry, no single product unilaterally drives farmer interest. Rather, it is the complete package of a seed and its traits that interests our customers.

The reason is simple: Farmers buy yield. They want the seed that has the potential for the highest yield, and they want the tools to protect that yield potential from environmental factors such as disease, insect damage, and weeds.

Meeting farmers’ demand means offering the best possible germplasm, incorporating the newest generation of biotechnology traits, and combining those biotechnology traits into stacked combinations that allow farmers to do more with every seed.

We are successful only when our customers are successful. Today, our commercial approach and our research philosophy are focused on the expectation that we can deliver more choice to farmers. The momentum that we’ve achieved with our seeds-and-trait strategy reflects our success in translating innovation into value for our customers.

Doing more with our germplasm

The first element of the yield package that interests a farmer is the seed itself. Across our business, we’re finding ways to invest in our germplasm resources to build upon our strong seed position in the existing market and to create new value and new markets.

Breeding is bolstering our seed position. This year, Monsanto increased our U.S. DEKALB and Asgrow branded corn share by two share points, for a gain of six share points in the last four years (see “Tools of our technology yield seed market share growth,” below).

Tools of our technology yield seed market share growth

By emphasizing technologies such as molecular breeding, we are making significant gains that add to the performance and value of the seed farmers buy. That’s a commercial benefit that is evident especially in the United States. From 2004 to 2005, Monsanto’s DEKALB and Asgrow corn seed brands grew our U.S. market share by two points.

Similarly, the customers of our Holden’s/Corn States business, more than 250 regional seed companies that license germplasm and biotechnology traits from us, also grew a collective share point this year. Including our newly created American Seeds, Inc. subsidiary, a holding company that gives Monsanto a new, locally oriented seed presence, the market for germplasm we’ve developed has grown by eight market share points in five years.

U.S. corn market share by brands and licensees (in percent)

- Holden’s/Corn States licensees
- American Seeds, Inc.
- DEKALB and Asgrow brands

<table>
<thead>
<tr>
<th>Year</th>
<th>Holden’s/Corn States</th>
<th>American Seeds, Inc.</th>
<th>DEKALB and Asgrow</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Ultimately, Vistive soybeans present new opportunities for the food industry because the resulting oil doesn’t require hydrogenation to be used in many types of processed foods. It also creates new opportunity and value for our farmer customers, who planted approximately 100,000 acres of these soybeans. With increased seed availability, we expect more than a half million acres will be planted with Vistive soybeans next year.

Adding value to the seed with technology

2005 marked the 10th year of commercial planting of biotechnology crops. In that decade, farmers have come to depend on the benefit of having technology packaged in the seed. That shifts more and more value from other farm inputs to the seed itself.

Current traits continue to add value. Through the 2005 planting season, we have introduced 14 products with biotechnology traits or different combinations of products. Those traits were used on almost 195 million acres throughout the world. This rapid adoption and continued reliance on our traits reflect the value our biotechnology traits create for farmers.

A peer-reviewed academic study published in 2005 confirmed that the introduction of biotechnology traits has brought farmers significant benefits. The study indicates that biotechnology crops added $6.5 billion to worldwide farm income in 2004 and that the cumulative increase in farm income from biotechnology crops since 1996 exceeded $27 billion. This economic benefit stems primarily from significant cost savings to farmers, who can use less pesticide and plow their fields less often.

The opportunity of the first generation of biotechnology traits is still expanding. A highlight of fiscal year 2005 was the significant growth of cotton sales in India. After just four years of commercial planting of Bollgard cotton there, more than 350,000 farmers planted 3 million acres of it in 2005 (see “Indian farmers quick to adopt Bollgard,” page 7).

New technology choices continue to transform the industry. We have not rested on the success of the first round of biotechnology products. We continue to innovate and to bring forward new choices in traits and trait combinations.
We were the first to bring a biotechnology trait to the market, with Roundup Ready soybeans and Bollgard cotton in 1996. We were the first to combine two biotechnology traits in a stacked offering, with our Bollgard and Roundup Ready cotton in 1997. We were the first to bring a second-generation technology upgrade with our Bollgard II cotton, which was introduced in 2003.

This year, we launched the first product in the industry to combine three biotechnology traits in a stacked offering, YieldGard Plus with Roundup Ready Corn 2. It includes YieldGard Corn Borer, YieldGard Rootworm, and Roundup Ready Corn 2. More than a million acres were planted with this corn in its initial year. We expect the acreage to triple in 2006, as stacked-trait penetration accelerates.

Next year, we also expect the largest-acre commercial launch of a biotechnology product ever when farmers plant our second-generation Roundup Ready Flex cotton.

Setting up for growth

Again in 2005, the strategic merits of our seeds-and-trait strategy were borne out in the marketplace. Sales in our seeds-and-trait businesses increased by 40 percent, and the gross profit generated through our seeds-and-trait sales reached almost $2 billion. That success provides positive momentum that should help us accelerate our growth over the next two to three years.

Indian farmers quick to adopt Bollgard

Fiscal year 2005 saw dramatic growth for our cotton business in India. Penetration of Bollgard more than doubled, with 3 million acres planted for the 2005 growing season. This rate of adoption reflects the value the Indian farmer is receiving from the Bollgard trait. Indian farmers using the Bollgard technology in cotton achieved significant benefits, including:

- reducing spending by 81 percent per acre on pesticides used to control the cotton bollworm;
- decreasing pesticide applications used to control the cotton bollworm by 74 percent per season; and
- increasing profit per acre by more than 60 percent.

These statistics bode well for our future growth in India. Along with strong results for our Australian cotton business, they show how our breeding improvements are accelerating global expansion of traits and fueling increased market demand.