

MONSANTO CO /NEW/
Form 10-Q
June 25, 2015
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MONSANTO COMPANY

THIRD QUARTER 2015 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 May 31, 2015

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 467,834,595 shares of Common Stock, \$0.01 par value, outstanding as of June 22, 2015.

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

In the interests of our investors, and in accordance with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, 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 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, including the potential combination with Syngenta AG as well as whether a potential combination will be entered into or completed and the expected benefits thereof; the anticipated benefits of recent acquisitions; the outcome of contingencies, such as litigation and the previously announced SEC investigation; 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 acceptance of biotechnology products; the success of the company’s research and development activities; the outcomes of major lawsuits and the previously announced SEC investigation; developments related to foreign currencies and economies; successful operation of recent acquisitions; fluctuations in commodity prices; compliance with regulations affecting our manufacturing; the accuracy of the company’s estimates related to distribution inventory levels; recent increases in and expected higher levels of indebtedness; the company’s ability to obtain payment for the products that it sells; the effect of weather conditions, natural disasters and accidents on the agriculture business or the company’s facilities; the possibility that a potential transaction with Syngenta will not be entered into or will be pursued on different terms and conditions, failure to obtain the necessary regulatory approvals or to satisfy any of the other conditions to a possible transaction, failure to realize the expected benefits thereof, or the impact of changes in business, financial, market, legal or other conditions; 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, 2014.

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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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The Statements of Consolidated Operations of Monsanto Company and its consolidated subsidiaries for the three and nine months ended May 31, 2015, and May 31, 2014, the Statements of Consolidated Comprehensive Income (Loss) for the three and nine months ended May 31, 2015, and May 31, 2014, the Statements of Consolidated Financial Position as of May 31, 2015, and Aug. 31, 2014, the Statements of Consolidated Cash Flows for the nine months ended May 31, 2015, and May 31, 2014, the Statements of Consolidated Shareowners' Equity for the nine months ended May 31, 2015, and year ended Aug. 31, 2014, 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 references to "Roundup and other glyphosate-based herbicides" exclude all lawn-and-garden herbicides.

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Statements of Consolidated Operations

Unaudited (Dollars in millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	May 31, 2015	May 31, 2014	May 31, 2015	May 31, 2014
Net Sales	\$4,579	\$4,250	\$12,646	\$13,225
Cost of goods sold	1,843	1,919	5,460	5,884
Gross Profit	2,736	2,331	7,186	7,341
Operating Expenses:				
Selling, general and administrative expenses	718	655	1,945	1,869
Research and development expenses	374	427	1,158	1,240
Total Operating Expenses	1,092	1,082	3,103	3,109
Income from Operations	1,644	1,249	4,083	4,232
Interest expense	96	42	303	135
Interest income	(18)	(17)	(84)	(64)
Other expense, net	10	3	19	84
Income from Continuing Operations Before Income Taxes	1,556	1,221	3,845	4,077
Income tax provision	401	341	1,051	1,165
Income from Continuing Operations Including Portion Attributable to Noncontrolling Interest	\$1,155	\$880	\$2,794	\$2,912
Discontinued Operations:				
Income from operations of discontinued businesses	—	—	37	22
Income tax provision	—	—	14	9
Income from Discontinued Operations	—	—	23	13
Net Income	\$1,155	\$880	\$2,817	\$2,925
Less: Net income attributable to noncontrolling interest	14	22	8	29
Net Income Attributable to Monsanto Company	\$1,141	\$858	\$2,809	\$2,896
Amounts Attributable to Monsanto Company:				
Income from continuing operations	\$1,141	\$858	\$2,786	\$2,883
Income from discontinued operations	—	—	23	13
Net Income Attributable to Monsanto Company	\$1,141	\$858	\$2,809	\$2,896
Basic Earnings per Share Attributable to Monsanto Company:				
Income from continuing operations	\$2.41	\$1.64	\$5.81	\$5.49
Income from discontinued operations	—	—	0.05	0.02
Net Income Attributable to Monsanto Company	\$2.41	\$1.64	\$5.86	\$5.51
Diluted Earnings per Share Attributable to Monsanto Company:				
Income from continuing operations	\$2.39	\$1.62	\$5.75	\$5.43
Income from discontinued operations	—	—	0.05	0.02
Net Income Attributable to Monsanto Company	\$2.39	\$1.62	\$5.80	\$5.45
Weighted Average Shares Outstanding:				
Basic	472.8	524.3	479.5	525.4
Diluted	477.2	529.8	484.3	531.2
Dividends Declared per Share	\$—	\$—	\$0.98	\$0.86

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

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MONSANTO COMPANY

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Statements of Consolidated Comprehensive Income (Loss)

Unaudited (Dollars in millions)	Three Months Ended		Nine Months Ended	
	May 31, 2015	May 31, 2014	May 31, 2015	May 31, 2014
Comprehensive Income Attributable to Monsanto Company				
Net Income Attributable to Monsanto Company	\$1,141	\$858	\$2,809	\$2,896
Other Comprehensive (Loss) Income, Net of Tax:				
Foreign currency translation, net of tax of \$18, \$(22), \$(12), and \$(34), respectively	(287	) 153	(1,393	) 232
Postretirement benefit plan activity, net of tax of \$6, \$5, \$18, and \$14, respectively	10	8	30	22
Unrealized net (losses) gains on investment holdings, net of tax of \$0, \$(2), \$0, and \$3, respectively	—	(3	)—	5
Realized net gains on investment holdings, net of tax of \$0, \$(1), \$0, and \$(1), respectively	—	(1)—	—
Unrealized net derivative (losses) gains, net of tax of \$(25), \$2, \$(52), and \$(14), respectively	(34	) 6	(61	) (25
Realized net derivative losses, net of tax of \$8, \$2, \$23, and \$8, respectively	11	2	34	13
Total Other Comprehensive (Loss) Income, Net of Tax	(300	) 165	(1,390	) 247
Comprehensive Income Attributable to Monsanto Company	\$841	\$1,023	\$1,419	\$3,143
Comprehensive Income Attributable to Noncontrolling Interests				
Net Income Attributable to Noncontrolling Interests	14	22	8	29
Other Comprehensive (Loss) Income				
Foreign currency translation	(1	) 7	(2	) 13
Total Other Comprehensive (Loss) Income	(1	) 7	(2	) 13
Comprehensive Income Attributable to Noncontrolling Interests	\$13	\$29	\$6	\$42
Total Comprehensive Income	\$854	\$1,052	\$1,425	\$3,185

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

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Statements of Consolidated Financial Position

Unaudited

(Dollars in millions, except share amounts)

As of

May 31, 2015 Aug. 31, 2014

Assets

Current Assets:

Cash and cash equivalents (variable interest entity restricted - 2015: \$106 and 2014: \$118)

\$1,179 \$2,367

Short-term investments

28 40

Trade receivables, net (variable interest entity restricted - 2015: \$9 and 2014: \$39)

3,998 2,014

Miscellaneous receivables

877 817

Deferred tax assets

697 635

Inventory, net

3,625 3,597

Other current assets

185 205

Total Current Assets

10,589 9,675

Total property, plant and equipment

10,221 10,357

Less accumulated depreciation

5,357 5,275

Property, Plant and Equipment, Net (variable interest entity restricted - 2015: \$2 and 2014: \$2)

4,864 5,082

Goodwill

4,153 4,319

Other Intangible Assets, Net

1,432 1,554

Noncurrent Deferred Tax Assets

324 450

Long-Term Receivables, Net

19 92

Other Assets

878 809

Total Assets

\$22,259 \$21,981

Liabilities and Shareowners' Equity

Current Liabilities:

Short-term debt, including current portion of long-term debt (variable interest entity restricted - 2015: \$99 and 2014: \$136)

\$587 \$233

Accounts payable (variable interest entity restricted - 2015: \$36 and 2014: \$25)

686 1,111

Income taxes payable

346 99

Accrued compensation and benefits (variable interest entity restricted - 2015: \$1 and 2014: \$1)

243 500

Accrued marketing programs

936 1,394

Deferred revenues

384 438

Grower production accruals

48 54

Dividends payable

1 239

Customer payable

12 82

Miscellaneous short-term accruals (variable interest entity restricted - 2015: \$7 and 2014: \$0)

854 962

Total Current Liabilities

4,097 5,112

Long-Term Debt

8,396 7,528

Postretirement Liabilities

327 345

Long-Term Deferred Revenue

54 47

Noncurrent Deferred Tax Liabilities

529 509

Long-Term Portion of Environmental and Litigation Liabilities

170 184

Other Liabilities

326 342

Shareowners' Equity:

Common stock (authorized: 1,500,000,000 shares, par value \$0.01)

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Issued 609,152,562 and 606,457,369 shares, respectively		
Outstanding 468,579,556 and 485,261,017 shares, respectively	6	6
Treasury stock 140,573,006 and 121,196,352 shares, respectively, at cost	(11,953	)(10,032)
Additional contributed capital	11,439	10,003
Retained earnings	11,350	9,012
Accumulated other comprehensive loss	(2,504	)(1,114)
Total Monsanto Company Shareowners' Equity	8,338	7,875
Noncontrolling Interest	22	39
Total Shareowners' Equity	8,360	7,914
Total Liabilities and Shareowners' Equity	\$22,259	\$21,981

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

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MONSANTO COMPANY

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Statements of Consolidated Cash Flows

Unaudited

(Dollars in millions)

Nine Months Ended

May 31, 2015 May 31, 2014

Operating Activities:

Net Income

\$2,817

\$2,925

Adjustments to reconcile cash provided by operating activities:

Items that did not require (provide) cash:

Depreciation and amortization

538

507

Bad-debt expense

40

26

Stock-based compensation expense

91

87

Excess tax benefits from stock-based compensation

(40)

(55)

)

Deferred income taxes

(95)

37

Equity affiliate expense, net

4

1

Net gain on sales of a business or other assets

(3)

(5)

)

Other items

107

61

Changes in assets and liabilities that (required) provided cash, net of acquisitions:

Trade receivables, net

(2,200)

(2,368)

)

Inventory, net

(413)

(577)

)

Deferred revenues

24

(252)

)

Accounts payable and other accrued liabilities

(423)

176

Pension contributions

(23)

(57)

)

Other items

(454)

(135)

)

Net Cash (Required) Provided by Operating Activities

(30)

371

Cash Flows (Required) Provided by Investing Activities:

Purchases of short-term investments

(28)

(105)

)

Maturities of short-term investments

40

359

Capital expenditures

(701)

(688)

)

Acquisition of businesses, net of cash acquired

(8)

(922)

)

Purchases of long-term debt and equity securities

(30)

(12)

)

Technology and other investments

(37)

(388)

)

Other proceeds

5

22

Net Cash Required by Investing Activities

(759)

(1,734)

)

Cash Flows Provided (Required) by Financing Activities:

Net change in financing with less than 90-day maturities

15

(15)

)

Short-term debt proceeds

20

30

Short-term debt reductions

(36)

(1)

)

Long-term debt proceeds

1,171

999

Long-term debt reductions

(7)

(7)

)

Payments on other financing

—

(39)

)

Debt issuance costs

(12)

(8)

)

Treasury stock purchases

(705)

(914)

)

Stock option exercises

131

190

Excess tax benefits from stock-based compensation

40

55

Tax withholding on restricted stock and restricted stock units

(31)

(8)

)

Dividend payments

(709)

(679)

)

Payments to noncontrolling interests

(20)

(23)

)

Net Cash Required by Financing Activities

(143)

(420)

)

Effect of Exchange Rate Changes on Cash and Cash Equivalents

(256)

13

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Net Decrease in Cash and Cash Equivalents	(1,188) (1,770)
Cash and Cash Equivalents at Beginning of Period	2,367	3,668	
Cash and Cash Equivalents at End of Period	\$1,179	\$1,898	

See Note 19 — 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

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Statements of Consolidated Shareowners' Equity

Monsanto Shareowners

Unaudited (Dollars in millions, except per share data)	Common Stock	Treasury Stock	Additional Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) (1)	Non-Controlling Interest	Total
Balance as of Aug. 31, 2013	\$6	\$(4,140)	)\$10,783	\$7,188	\$ (1,278)	) \$ 169	\$12,728
Net income	—	—	—	2,740	—	22	2,762
Other comprehensive income	—	—	—	—	164	10	174
Treasury stock purchases	—	(5,892)	)(1,204)	—	—	—	(7,096)
Restricted stock withholding	—	—	(16)	—	—	—	(16)
Issuance of shares under employee stock plans	—	—	248	—	—	—	248
Net excess tax benefits from stock-based compensation	—	—	72	—	—	—	72
Stock-based compensation expense	—	—	120	—	—	—	120
Cash dividends of \$1.78 per common share	—	—	—	(916)	)—	—	(916)
Recognition of redeemable shares of VIE	—	—	—	—	—	(134)	) (134)
Payments to noncontrolling interest	—	—	—	—	—	(28)	) (28)
Balance as of Aug. 31, 2014	\$6	\$(10,032)	)\$10,003	\$9,012	\$ (1,114)	) \$ 39	\$7,914
Net income	—	—	—	2,809	—	8	2,817
Other comprehensive loss	—	—	—	—	(1,390)	) (2)	) (1,392)
Treasury stock purchases	—	(1,921)	)1,200	—	—	—	(721)
Restricted stock withholding	—	—	(24)	—	—	—	(24)
Issuance of shares under employee stock plans	—	—	131	—	—	—	131
Net excess tax benefits from stock-based compensation	—	—	37	—	—	—	37
Stock-based compensation expense	—	—	92	—	—	—	92
Cash dividends of \$0.98 per common share	—	—	—	(471)	)—	—	(471)
Acquisition of noncontrolling interest	—	—	—	—	—	(3)	) (3)

Payments to noncontrolling interest	—	—	—	—	—	(20	)	(20)
Balance as of May 31, 2015	\$6	\$(11,953	)\$11,439	\$11,350	\$ (2,504	)	\$ 22	\$8,360	

(1) See Note 17 — Accumulated Other Comprehensive Loss — for further details of the components of accumulated other comprehensive income (loss).

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

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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 precision agriculture tools provide farmers with solutions that help improve productivity, reduce the costs of farming and produce better foods for consumers and better feed for animals.

Monsanto manages its business in two 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 Ruiters, and Monsanto develops biotechnology traits that assist farmers in controlling insects and weeds and precision agriculture 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 21 — 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 (the Dairy business) 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.

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 adjustments necessary 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, 2014. Financial information for the first nine months of fiscal year 2015 should not be annualized because of the seasonality of the company's business.

NOTE 2. NEW ACCOUNTING STANDARDS

In April 2015, the Financial Accounting Standards Board ("FASB") issued accounting guidance, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement" which provides explicit guidance on the recognition of fees paid by a customer for cloud computing arrangements as either the acquisition of a software license or a service contract. This standard is effective for fiscal years, and for interim periods within those fiscal years, beginning after Dec. 15, 2015. Monsanto must elect to adopt either retrospectively or prospectively, and early adoption is permitted. Accordingly, Monsanto is required to adopt this standard in the first quarter of fiscal year 2017. The company is currently evaluating the impact this guidance will have on the consolidated financial statements and related disclosures.

In April 2015, the FASB issued accounting guidance, "Simplifying the Presentation of Debt Issuance Costs" which requires debt issuance costs related to a recognized debt liability to be presented in the statement of financial position as a direct deduction from the carrying amount of that debt. This standard is effective for fiscal years, and for interim periods within those fiscal years, beginning after Dec. 15, 2015, with early adoption permitted for financial statements not yet issued. Accordingly, Monsanto is required to adopt this standard retrospectively in the first quarter of fiscal year 2017. The company is currently evaluating the impact this guidance will have on the consolidated financial statements and related disclosures.

In February 2015, the FASB issued accounting guidance, "Amendments to the Consolidation Analysis" which changes the guidance with respect to the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. All legal entities are subject to reevaluation under the revised consolidation

model. The new guidance affects the following areas: (1) limited partnerships and similar legal entities, (2) evaluating fees paid to a decision maker or a service provider as a variable interest, (3) the effect of fee arrangements on the primary beneficiary determination, (4) the effect of related parties on the primary beneficiary determination, and (5) certain investment funds. This standard is effective for fiscal years, and for interim periods within those fiscal years, beginning after Dec. 15, 2015. Accordingly, Monsanto is required to adopt this standard in the first quarter of fiscal year 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the guidance in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. A reporting entity may apply the amendments in this guidance using a modified retrospective approach by recording a cumulative effect adjustment to equity as of the beginning of the fiscal year of adoption. A reporting entity also may apply the amendments retrospectively. The company is currently evaluating the impact this guidance will have on the consolidated financial statements and related disclosures.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED (continued)

In June 2014, the FASB issued accounting guidance, "Compensation - Stock Compensation" which seeks to resolve the diversity in practice that exists when accounting for share-based payments. The new guidance requires a performance target that affects vesting and that could be achieved after the requisite service period to be treated as a performance condition. This standard is effective for fiscal years and interim periods within those years beginning after Dec. 15, 2015. Accordingly, Monsanto will adopt this standard in the first quarter of fiscal year 2017, with early adoption permitted. The guidance may be adopted either prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. 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." 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. This standard is effective for fiscal years and interim periods within those years beginning after Dec. 15, 2016. Accordingly, Monsanto will adopt this standard in the first quarter of fiscal year 2018, with early adoption prohibited. The company is currently evaluating the impact this guidance will have on the consolidated financial statements and related disclosures.

In April 2014, the FASB issued accounting guidance, "Presentation of Financial Statements and Property, Plant, and Equipment." The new standard raises the threshold for a disposal transaction to qualify as a discontinued operation and requires additional disclosures about discontinued operations and disposals of individually significant components that do not qualify as discontinued operations. This standard is effective prospectively for all disposals of components that occur within annual periods beginning on or after Dec. 15, 2014, and interim periods within those years. Accordingly, Monsanto will adopt this standard in the first quarter of fiscal year 2016. Early adoption is permitted for new disposals (or new classifications as held for sale) that have not been reported in the financial statements previously. The company is currently evaluating the impact that this guidance will have on the consolidated financial statements and related disclosures.

In July 2013, the FASB issued accounting guidance requiring entities to present unrecognized tax benefits as a reduction to any related deferred tax assets for net operating losses, similar tax losses, or tax credit carryforwards if such settlement is required or expected in the event an uncertain tax position is disallowed. Previously, U.S. Generally Accepted Accounting Principles ("U.S. GAAP") did not provide explicit guidance on the topic. This new presentation guidance became effective prospectively for fiscal years, and interim periods within those years, beginning after Dec. 15, 2013. Accordingly, Monsanto adopted this standard in the first quarter of fiscal year 2015.

NOTE 3. BUSINESS COMBINATIONS AND COLLABORATIVE ARRANGEMENTS**Proposed Combination with Syngenta AG ("Syngenta")**

On May 8, 2015, Monsanto confirmed that the company had submitted a non-binding proposal to the Board of Directors of Syngenta AG ("Syngenta") to combine with Syngenta for 449 CHF per Syngenta share, payable

approximately 55 percent in stock and 45 percent in cash. This proposal was rejected by Syngenta, but Monsanto is continuing to consider options with respect to Syngenta. There can be no assurance that a potential transaction with Syngenta will be entered into, will be pursued on different terms and conditions or that any transaction will be consummated.

Business Combinations

2014 Acquisition: In November 2013, Monsanto acquired 100 percent of the outstanding stock of The Climate Corporation, a San Francisco, California-based company. The Climate Corporation is a leading data analytics company with core capabilities around hyperlocal weather monitoring, weather simulation and agronomic modeling which has allowed it to develop risk management tools and agronomic decision support tools for growers. The acquisition combined The Climate Corporation's expertise in agriculture risk-management with Monsanto's research and development ("R&D") capabilities, and is expected to further enable farmers to significantly improve productivity and better manage risk from variables that could limit agriculture production. The acquisition of the company qualifies as a business under the Business Combinations topic of the Accounting Standards Codification ("ASC"). The total fair value of the acquisition was \$932 million, and the total cash paid for the

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acquisition was \$917 million, net of cash acquired. The fair value was primarily allocated to goodwill and intangibles. The primary item that generated goodwill was the premium paid by the company for the right to control the acquired business and technology. The goodwill is not deductible for tax purposes.

For the 2014 acquisition described above, the business operations and employees of the acquired entity were included in the Seeds and Genomics reportable segment results upon acquisition. Pro forma information related to the 2014 acquisition is not presented because the impact of the acquisition on Monsanto's consolidated results of operations is not significant.

Collaborative Arrangements

In the normal course of business, Monsanto enters into collaborative arrangements for the research, development, manufacture and/or commercialization of agricultural products. Collaborative arrangements are contractual agreements with third parties that involve a joint operating activity, such as research and development and commercialization of a collaboration product, where both Monsanto and the third party are active participants in the activities of the collaboration and are exposed to significant risks and rewards of the collaboration. These collaborations generally include cost sharing and profit sharing. Monsanto's collaboration agreements are performed with no guarantee of either technological or commercial success. The company's significant arrangements are discussed below.

Monsanto has entered into various multiyear research, development, manufacturing and commercialization collaborations related to various activities including plant biotechnology and microbial solutions. Under these collaborations, Monsanto and the third parties participate in the R&D and/or manufacturing activities, and Monsanto generally has the primary responsibility for the commercialization of the collaboration products. The collaborations are accounted for in accordance with the Collaborative Arrangements topic of the ASC.

NOTE 4. CUSTOMER FINANCING PROGRAMS

Monsanto participates in customer-financing programs as follows:

(Dollars in millions)	As of	
	May 31, 2015	Aug. 31, 2014
Transactions that Qualify for Sales Treatment		
U.S. agreement to sell trade receivables ⁽¹⁾		
Outstanding balance	\$123	\$436
Maximum future payout under recourse provisions	4	21
European and Latin American agreements to sell trade receivables ⁽²⁾		
Outstanding balance	\$25	\$67
Maximum future payout under recourse provisions	6	34
Agreements with Lenders ⁽³⁾		
Outstanding balance	\$86	\$71
Maximum future payout under the guarantee	73	51

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

(Dollars in millions)	Gross Amounts of Receivables Sold			
	Three Months Ended		Nine Months Ended	
	May 31, 2015	May 31, 2014	May 31, 2015	May 31, 2014
Transactions that Qualify for Sales Treatment				

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U.S. agreement to sell trade receivables ⁽¹⁾	\$ 114	\$—	\$ 118	\$ 23
European and Latin American agreements to sell trade receivables ⁽²⁾	6	7	43	17

(1) Monsanto has agreements in the United States to sell trade receivables, both with and without recourse, up to a maximum outstanding balance of \$960 million 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.

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Monsanto has various agreements in European and Latin American countries to sell trade receivables, both with and without recourse. The sales within these programs 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 (2) 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 on the company's historical collection experience for the customers associated with the sale of the receivables and a current assessment of credit exposure.

Monsanto has additional agreements with lenders to establish programs that provide financing for select customers in the United States, Brazil, 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 (3) 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 1 billion Brazilian reais (approximately \$315 million) 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.

There were no significant recourse or non-recourse liabilities for all programs as of May 31, 2015, and Aug. 31, 2014. There were no significant delinquent loans for all programs as of May 31, 2015, and Aug. 31, 2014.

NOTE 5. VARIABLE INTEREST ENTITIES

Monsanto has a financing program in Brazil that is recorded as a consolidated variable interest entity ("VIE"). For the most part, the 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. Third parties, primarily investment funds, held senior interest of 90 percent and 91 percent in the entity as of May 31, 2015, and Aug. 31, 2014, respectively, and Monsanto held the remaining ten percent and nine percent interest, respectively. The senior interests held by third parties are mandatorily redeemable shares and are included in short-term debt in the Statements of Consolidated Financial Position.

Under the arrangement, Monsanto is required to maintain an investment in the VIE of at least nine percent and could be required to provide additional contributions to the VIE. Monsanto currently has no unfunded commitments to the VIE. Creditors have no recourse against Monsanto in the event of default by the VIE. The company's financial or other support provided to the VIE is limited to its investment. Even though Monsanto holds a subordinate interest in the VIE, the 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 VIE. As a result, the company is the primary beneficiary of the VIE, and the VIE has been consolidated in Monsanto's consolidated financial statements. The assets of the VIE may only be used to settle the obligations of the respective entity. Third-party investors in the VIE do not have recourse to the general assets of Monsanto other than the maximum exposure to loss

relating to the VIE. Monsanto's maximum exposure to loss was \$11 million and \$13 million as of May 31, 2015, and Aug. 31, 2014, respectively. See Note 4 — Customer-Financing Programs — for additional information regarding the revolving financing arrangement.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED (continued)

Monsanto has entered into several agreements with third parties to establish entities to focus on research and development related to various activities including agricultural fungicides and biologicals for agricultural applications. All such entities are recorded as consolidated VIEs of Monsanto. Under each of the arrangements, Monsanto holds call options to acquire the majority of the equity interests in each VIE from the third-party owners. Monsanto will fund the operations of the VIEs in return for either additional equity interests or to retain the call options. The funding, which may total up to \$118 million, will be provided in separate research phases if research milestones are met over the next several years. The VIEs were established to perform agricultural-based research and development activities for the benefit of Monsanto, and Monsanto provides all funding of the VIEs' activities. Further, Monsanto has the power to direct the activities most significant to the VIEs. As a result, Monsanto is the primary beneficiary of the VIEs and the VIEs have been consolidated in Monsanto's consolidated financial statements. Monsanto's maximum exposure to loss was \$62 million and \$43 million as of May 31, 2015, and Aug. 31, 2014, respectively, which includes the company's current investment in the VIEs, the funding required to be provided to the VIEs during the research phases and/or the initial consideration paid related to the call options. The third-party owners of the VIEs do not have recourse to the general assets of Monsanto beyond Monsanto's maximum exposure to loss at any given time relating to the VIEs.

NOTE 6. RECEIVABLES

Trade receivables in the Statements of Consolidated Financial Position are net of allowances of \$80 million and \$72 million as of May 31, 2015, and Aug. 31, 2014, respectively.

The company has financing receivables that represent long-term customer receivable balances related to past due accounts which are not expected to be collected within the current year. The long-term customer receivables were \$137 million and \$136 million as of May 31, 2015, and Aug. 31, 2014, respectively, with a corresponding allowance for credit losses on these receivables of \$125 million as of May 31, 2015, and Aug. 31, 2014. 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, 2013	\$ 104	
Incremental Provision	11	
Recoveries	(4)
Write-offs	(15)
Other ⁽¹⁾	29	
Balance as of Aug. 31, 2014	\$ 125	
Incremental Provision	2	
Recoveries	(1)
Write-offs	(6)
Other ⁽¹⁾	5	
Balance as of May 31, 2015	\$ 125	

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED (continued)

NOTE 7. INVENTORY

Components of inventory are:

(Dollars in millions)	As of	
	May 31, 2015	Aug. 31, 2014
Finished Goods	\$1,911	\$1,591
Goods In Process	1,455	1,721
Raw Materials and Supplies	419	445
Inventory at FIFO Cost	3,785	3,757
Excess of FIFO over LIFO Cost	(160	)(160
Total	\$3,625	\$3,597

NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the net carrying amount of goodwill for the first nine months of fiscal year 2015, by segment, are as follows:

(Dollars in millions)	Seeds and Genomics	Agricultural Productivity	Total
Balance as of Aug. 31, 2014	\$4,262	\$57	\$4,319
Effect of foreign currency translation and other adjustments	(161	)(5	)(166
Balance as of May 31, 2015	\$4,101	\$52	\$4,153

The fiscal year 2015 annual goodwill impairment test was performed as of Mar. 1, 2015, and no goodwill impairment existed as of that date. There were no events or circumstances indicating that goodwill might be impaired as of May 31, 2015.

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

(Dollars in millions)	As of May 31, 2015			As of Aug. 31, 2014		
	Carrying Amount	Accumulated Amortization	Net	Carrying Amount	Accumulated Amortization	Net
Acquired Germplasm	\$1,075	\$(743	)\$332	\$1,116	\$(751	)\$365
Acquired Intellectual Property	1,167	(550	)617	1,160	(507	)653
Trademarks	354	(149	)205	366	(142	)224
Customer Relationships	318	(207	)111	338	(204	)134
Other	183	(117	)66	181	(106	)75
Total Other Intangible Assets, Finite Lives	\$3,097	\$(1,766	)\$1,331	\$3,161	\$(1,710	)\$1,451
In Process Research & Development, Indefinite Lives	101	—	101	103	—	103
Total Other Intangible Assets	\$3,198	\$(1,766	)\$1,432	\$3,264	\$(1,710	)\$1,554

Total amortization expense of total other intangible assets was \$34 million and \$38 million for the three months ended May 31, 2015, and May 31, 2014, respectively, and \$107 million and \$98 million for the nine months ended May 31, 2015, and May 31, 2014, respectively.

The estimated intangible asset amortization expense for fiscal year 2015 through fiscal year 2019 is as follows:

(Dollars in millions)	Amount
2015	\$152

2016	178
2017	174
2018	144
2019	132

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED (continued)

NOTE 9. INVESTMENTS

As of May 31, 2015, Monsanto had short-term investments outstanding of \$28 million. The balance represents cash which is contractually restricted as to withdrawal or usage. The restricted cash includes amounts held in escrow related to litigation settlements. As of Aug. 31, 2014, Monsanto had short-term investments outstanding of \$40 million. The investment consisted of commercial paper with original maturities of one year or less. See Note 12 — Fair Value Measurements.

Monsanto has investments in long-term equity and debt securities, which are considered available for sale. As of May 31, 2015, and Aug. 31, 2014, these long-term equity and debt securities are recorded in other assets in the Statements of Consolidated Financial Position at a fair value of \$52 million and \$22 million, respectively. See Note 17 — Accumulated Other Comprehensive Loss.

Monsanto has cost basis investments recorded in other assets in the Statements of Consolidated Financial Position. As of May 31, 2015, and Aug. 31, 2014, these investments were recorded at \$95 million and \$91 million, respectively. Due to the nature of these investments, the fair market value is not readily determinable. These investments are reviewed for impairment indicators.

No significant impairments were recorded on any investments for each of the three and nine months ended May 31, 2015, and May 31, 2014.

NOTE 10. INCOME TAXES

Monsanto recorded a discrete tax benefit of \$67 million in the first nine months of 2015, primarily as a result of favorable adjustments to our U.S. and Ex-U.S. tax returns filed during the year.

NOTE 11. DEBT AND OTHER CREDIT ARRANGEMENTS

In June 2014, Monsanto filed a new shelf registration with the SEC (2014 shelf registration) that allows the company to issue an unlimited capacity of debt, equity and hybrid offerings. The 2014 shelf registration expires in June 2017. In April 2015, Monsanto issued \$300 million of 2.85% Senior Notes due in 2025 and \$500 million of 3.95% Senior Notes due in 2045. In January 2015, Monsanto issued \$365 million of 4.30% Senior Notes due in 2045. All notes were issued under the 2014 shelf registration. The net proceeds from the issuances are expected to be used for general corporate purposes, which may include share repurchases and capital expenditures.

In July 2014, Monsanto issued \$500 million of 1.15% Senior Notes due in 2017, \$500 million of 2.125% Senior Notes due in 2019, \$500 million of 2.75% Senior Notes due in 2021, \$750 million of 3.375% Senior Notes due in 2024, \$500 million of 4.20% Senior Notes due in 2034, \$1 billion of 4.40% Senior Notes due in 2044 and \$750 million of 4.70% Senior Notes due in 2064. All notes were issued under the 2014 shelf registration. The net proceeds from the July 2014 issuance were used to purchase treasury shares pursuant to the accelerated share repurchase agreements disclosed in Note 16 — Capital Stock.

In November 2013, Monsanto issued \$400 million of Floating Rate Senior Notes which are due in 2016, \$300 million of 1.85% Senior Notes due 2018 and \$300 million of 4.65% Senior Notes due in 2043. All notes were issued under the 2011 shelf registration. The net proceeds from the sale of the November 2013 issuances were used for the acquisition of The Climate Corporation and general corporate purposes.

As of Aug. 31, 2014, Monsanto had a credit facility agreement with a group of banks that provided a senior unsecured revolving credit facility through Apr. 1, 2016. In fiscal year 2015, Monsanto requested an increase in the overall borrowing limit pursuant to a provision in the credit agreement that allowed Monsanto to do so, and effective Sept. 30, 2014, the limit was increased from \$2 billion to \$2.5 billion. In March 2015, Monsanto replaced its \$2.5 billion credit facility agreement with a \$3 billion credit facility agreement that provides a senior unsecured revolving credit facility

through Mar. 27, 2020. As of May 31, 2015, 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, mandatorily redeemable shares of a VIE and notes payable to banks.

The fair value of total short-term debt was \$591 million and \$233 million as of May 31, 2015, and Aug. 31, 2014, respectively. The fair value of the total long-term debt was \$8,458 million and \$7,928 million as of May 31, 2015, and Aug. 31, 2014, respectively. See Note 12 — Fair Value Measurements — for additional information.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED (continued)

NOTE 12. 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 May 31, 2015, and Aug. 31, 2014. 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.

(Dollars in millions)	Fair Value Measurements at May 31, 2015, Using			
	Level 1	Level 2	Level 3	Net Balance
Assets at Fair Value:				
Cash equivalents	\$806	\$—	\$—	\$806
Short-term investments	28	—	—	28
Available-for-sale securities	20	32	—	52
Derivative assets related to:				
Foreign currency contracts	—	39	—	39
Commodity contracts	9	15	—	24
Interest rate contracts	—	1	—	1
Total Assets at Fair Value	\$863	\$87	\$—	\$950
Liabilities at Fair Value:				
Short-term debt instruments ⁽¹⁾	\$—	\$492	\$99	\$591
Long-term debt instruments ⁽¹⁾	—	8,458	—	8,458
Derivative liabilities related to:				
Foreign currency contracts	—	9	—	9
Commodity contracts	67	49	—	116
Interest rate contracts	—	1	—	1
Total Liabilities at Fair Value	\$67	\$9,009	\$99	\$9,175

(1)

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

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(Dollars in millions)	Fair Value Measurements at Aug. 31, 2014, Using			
	Level 1	Level 2	Level 3	Net Balance
Assets at Fair Value:				
Cash equivalents	\$1,664	\$—	\$—	\$1,664
Short-term investments	40	—	—	40
Equity securities	22	—	—	22
Derivative assets related to:				
Foreign currency	—	11	—	11
Commodity contracts	20	16	—	36
Total Assets at Fair Value	\$1,746	\$27	\$—	\$1,773
Liabilities at Fair Value:				
Short-term debt instruments	\$—	\$97	\$136	\$233
Long-term debt instruments ⁽¹⁾	—	7,928	—	7,928
Derivative liabilities related to:				
Foreign currency	—	19	—	19
Commodity contracts	76	15	—	91
Total Liabilities at Fair Value	\$76	\$8,059	\$136	\$8,271

(1) Long-term debt instruments are not recorded at fair value on a recurring basis; 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 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 expense, net.

The company's short-term investments may consist of commercial paper and cash which is contractually restricted as to withdrawal or usage. The company's available-for-sale securities consist of equity securities of publicly traded equity investments and debt security investments in Argentine sovereign bonds. Commercial paper and 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 are classified as Level 1. The company's 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, mandatorily redeemable shares, and notes payable to banks. Commercial paper and notes payables to banks are recorded at amortized cost in the Statements of Consolidated Financial Position, which approximates fair value. Current portion of long-term debt is measured at fair value for disclosure purposes and determined based on current market yields for Monsanto's debt traded in the secondary market. 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 11

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED (continued)

— Debt and Other Credit Arrangements — for additional disclosures. Accretion expense is included in the Statements of Consolidated Operations as interest expense.

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.

For the nine months ended May 31, 2015, and May 31, 2014, 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 May 31, 2015, and Aug. 31, 2014. The following table summarizes the change in fair value of the Level 3 liability for the nine months ended May 31, 2015.

(Dollars in millions)

Balance Aug. 31, 2014 ⁽¹⁾	\$ 136	
Accretion expense	11	
Payments	(7)
Effect of foreign currency translation adjustments	(41)
Balance May 31, 2015 ⁽¹⁾	\$99	

⁽¹⁾ Includes 300,000 mandatorily redeemable shares outstanding with a par value of 1,000 Brazilian reais (approximately \$315 and \$447) as of May 31, 2015, and Aug. 31, 2014, respectively.

There were no significant measurements of assets or liabilities to their implied fair value on a nonrecurring basis during the nine months ended May 31, 2015, and May 31, 2014.

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 May 31, 2015, and Aug. 31, 2014.

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.

NOTE 13. 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 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED (continued)

The maximum term over which the company is hedging exposures to the variability of cash flow (for all forecasted transactions) is 15 months for foreign currency hedges and 38 months for commodity hedges. During the next 12 months, a pretax net loss of approximately \$86 million is expected to be reclassified from accumulated other comprehensive loss into earnings. No cash flow hedges were discontinued during the three and nine months ended May 31, 2014. A pretax loss of \$2 million during the three and nine months ended May 31, 2015, was reclassified into cost of goods sold in the Statements of Consolidated Operations as a result of the discontinuance of commodity cash flow hedges because it was probable that the original forecasted transaction would not occur by the end of the originally specified time period.

Fair Value Hedges

The company uses commodity futures, forwards and options contracts as fair value hedges to manage the value of its soybean inventory and other assets. For derivative instruments that are designated and qualify as fair value hedges, both the gain or loss on the derivative and the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. No fair value hedges were discontinued during the three and nine months ended May 31, 2015, and May 31, 2014.

Derivatives Not Designated as Hedging Instruments

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

To reduce credit exposure in Latin America, Monsanto collects payments on certain customer accounts in grain. Such payments in grain are negotiated at or near the time Monsanto's products are sold to the customers and are valued at the prevailing grain commodity prices. By entering into forward sales contracts related to grain, Monsanto mitigates the commodity price exposure from the time a contract is signed with a customer until the time a grain merchant collects the grain from the customer on Monsanto's behalf. The forward sales contracts do not qualify for hedge accounting treatment under the Derivatives and Hedging topic of the ASC. Accordingly, the gain or loss on these derivatives is recognized in current earnings.

Monsanto uses interest rate contracts to minimize the variability of forecasted cash flows arising from the company's 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 May 31, 2015, and Aug. 31, 2014, were as follows:

(Dollars in millions)	As of	
	May 31, 2015	Aug. 31, 2014
Derivatives Designated as Hedges:		
Foreign exchange contracts	\$461	\$585
Commodity contracts	863	626
Interest rate contracts	150	—

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Total Derivatives Designated as Hedges	\$1,474	\$1,211
Derivatives Not Designated as Hedges:		
Foreign exchange contracts	\$1,577	\$2,054
Commodity contracts	216	272
Interest rate contracts	112	160
Total Derivatives Not Designated as Hedges	\$1,905	\$2,486

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED (continued)

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

As of May 31, 2015

(Dollars in millions)	Gross Amounts Recognized	Gross Amounts 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	Statement of Consolidated Financial Position Balance
Asset Derivatives:							
Trade receivables, net							
Derivatives not designated as hedges:							
Commodity contracts ⁽¹⁾	\$—	\$ (19)	\$ (19)	\$ 19	\$ —		
Total trade receivables, net	—	(19)	(19)	19	—	\$ 3,998	\$ 3,998
Miscellaneous receivables							
Derivatives designated as hedges:							
Foreign exchange contracts	27	—	27	—	27		
Derivatives not designated as hedges:							
Foreign exchange contracts	11	—	11	—	11		
Commodity contracts	15	—	15	—	15		
Total miscellaneous receivables	53	—	53	—	53	824	877
Other current assets							
Derivatives designated as hedges:							
Commodity contracts ⁽¹⁾	9	(60)	(51)	51	—		
Interest rate contracts ⁽¹⁾	1	(1)	—	—	—		
Derivatives not designated as hedges:							
Commodity contracts ⁽¹⁾	—	(1)	(1)	1	—		
Total other current assets	10	(62)	(52)	52	—	185	185
Other assets							
Derivatives designated as hedges:							
Foreign exchange contracts	1	—	1	—	1		
Commodity contracts ⁽¹⁾	—	(5)	(5)	5	—		
Total other assets	1	(5)	(4)	5	1	877	878

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Total Asset Derivatives	\$64	\$ (86) \$ (22) \$76	\$ 54		
Liability Derivatives:							
Trade receivables, net							
Derivatives not designated as hedges:							
Commodity contracts ⁽¹⁾	\$19	\$ (19) \$ —	\$—	\$ —		
Total trade receivables, net	19	(19) —	—	—		
Other current assets							
Derivatives designated as hedges:							
Commodity contracts ⁽¹⁾	60	(60) —	—	—		
Interest rate contracts ⁽¹⁾	1	(1) —	—	—		
Derivatives not designated as hedges:							
Commodity contracts ⁽¹⁾	1	(1) —	—	—		
Total other current assets	62	(62) —	—	—		
Other assets							
Derivatives designated as hedges:							
Commodity contracts ⁽¹⁾	5	(5) —	—	—		
Total other assets	5	(5) —	—	—		
Miscellaneous short-term accruals							
Derivatives designated as hedges:							
Commodity contracts	22	—	22	—	22		
Derivatives not designated as hedges:							
Foreign exchange contracts	9	—	9	—	9		
Total miscellaneous short-term accruals	31	—	31	—	31	\$ 823	\$ 854
Other liabilities							
Derivatives designated as hedges:							
Commodity contracts	9	—	9	—	9		
Total other liabilities	9	—	9	—	9	317	326
Total Liability Derivatives	\$126	\$ (86) \$ 40	\$—	\$ 40		

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED (continued)

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED (continued)

(Dollars in millions)	As of Aug. 31, 2014					Other Items Included in the Statement of Consolidated Financial Position	Statement of Consolidated Financial Position Balance
	Gross Amounts Recognized	Gross Amounts 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		
Asset Derivatives:							
Trade receivables, net							
Derivatives not designated as hedges:							
Commodity contracts ⁽¹⁾	\$—	\$ (10	) \$ (10	) \$ 10	\$—		
Total trade receivables, net	—	(10	) (10	) 10	—	\$ 2,014	\$ 2,014
Miscellaneous receivables							
Derivatives designated as hedges:							
Foreign exchange contracts	5	—	5	—	5		
Derivatives not designated as hedges:							
Foreign exchange contracts	4	—	4	—	4		
Commodity contracts	13	—	13	—	13		
Total miscellaneous receivables	22	—	22	—	22	795	817
Other current assets							
Derivatives designated as hedges:							
Commodity contracts ⁽¹⁾	4	(57	) (53	) 53	—		
Derivatives not designated as hedges:							
Commodity contracts ⁽¹⁾	19	(1	) 18	—	18		
Total other current assets	23	(58	) (35	) 53	18	187	205
Other assets							
Derivatives designated as hedges:							
Foreign exchange contracts	2	—	2	—	2		
Commodity contracts ⁽¹⁾	—	(19	) (19	) 19	—		
Total other assets	2	(19	) (17	) 19	2	807	809
Total Asset Derivatives	\$47	\$ (87	) \$ (40	) \$82	\$42		
Liability Derivatives:							
Trade receivables, net							

Derivatives not designated as hedges:							
Commodity contracts ⁽¹⁾	\$ 10	\$ (10) \$—	\$—	\$—		
Total trade receivables, net	10	(10) —	—	—		
Other current assets							
Derivatives designated as hedges:							
Commodity contracts ⁽¹⁾	57	(57) —	—	—		
Derivatives not designated as hedges:							
Commodity contracts ⁽¹⁾	1	(1) —	—	—		
Total other current assets	58	(58) —	—	—		
Other assets							
Derivatives designated as hedges:							
Commodity contracts ⁽¹⁾	19	(19) —	—	—		
Total other assets	19	(19) —	—	—		
Miscellaneous short-term accruals							
Derivatives designated as hedges:							
Foreign exchange contracts	6	—	6	—	6		
Commodity contracts	3	—	3	—	3		
Derivatives not designated as hedges:							
Foreign exchange contracts	13	—	13	—	13		
Total miscellaneous short-term accruals	22	—	22	—	22	\$ 940	\$ 962
Other liabilities							
Derivatives designated as hedges:							
Commodity contracts	1	—	1	—	1		
Total other liabilities	1	—	1	—	1	341	342
Total Liability Derivatives	\$ 110	\$ (87) \$ 23	\$—	\$ 23		

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED (continued)

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.

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

	Amount of Gain (Loss) Recognized in AOCI ⁽¹⁾ (Effective Portion)		Amount of Gain (Loss) Recognized in Income ⁽²⁾⁽³⁾		Statement of Consolidated Operations Classification
	Three Months Ended May 31, 2015	Three Months Ended May 31, 2014	Three Months Ended May 31, 2015	Three Months Ended May 31, 2014	
(Dollars in millions)					
Derivatives Designated as Hedges:					
Fair value hedges:					
Commodity contracts			\$ 10	\$(10)	) Cost of goods sold
Cash flow hedges:					
Foreign currency contracts	\$ (2	) \$ (4	) 10	2	Net sales
Foreign currency contracts	7	1	4	(2)	) Cost of goods sold
Commodity contracts	(48	) 11	(30	)(1	) Cost of goods sold
Interest rate contracts	(16) —			