GENERAL MILLS INC
Form 10-Q
March 23, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED February 28, 2016

¨ 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: 001-01185

GENERAL MILLS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	41-0274440 (I.R.S. Employer Identification No.)
Number One General Mills Boulevard Minneapolis, Minnesota (Address of principal executive offices)	55426 (Zip Code)

(763) 764-7600

(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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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	x	Accelerated filer	¨
Non-accelerated	¨ (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 x

Number of shares of Common Stock outstanding as of March 11, 2016: 594,401,538 (excluding 160,211,790 shares held in the treasury).

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General Mills, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Earnings

GENERAL MILLS, INC. AND SUBSIDIARIES

(Unaudited) (In Millions, Except per Share Data)

	Quarter Ended		Nine-Month Period Ended	
	Feb. 28, 2016	**Feb. 22, 2015**	**Feb. 28, 2016**	**Feb. 22, 2015**
Net sales	**$ 4,002.4**	$ 4,350.9	**$ 12,635.2**	$ 13,331.5
Cost of sales	**2,644.9**	2,975.0	**8,182.5**	8,897.8
Selling, general, and administrative expenses	**755.8**	789.4	**2,339.7**	2,502.1
Divestitures (gain)	**(1.5)**		**(200.6)**	
Restructuring, impairment, and other exit costs	**16.9**	49.3	**138.3**	277.9
Operating profit	**586.3**	537.2	**2,175.3**	1,653.7
Interest, net	**77.2**	80.0	**226.3**	235.8
Earnings before income taxes and after-tax earnings from joint ventures	**509.1**	457.2	**1,949.0**	1,417.9
Income taxes	**157.6**	116.5	**667.7**	422.5
After-tax earnings from joint ventures	**16.2**	13.1	**65.1**	66.2
Net earnings, including earnings attributable to redeemable and noncontrolling interests	**367.7**	353.8	**1,346.4**	1,061.6
Net earnings attributable to redeemable and noncontrolling interests	**6.0**	10.6	**28.6**	27.1
Net earnings attributable to General Mills	**$ 361.7**	$ 343.2	**$ 1,317.8**	$ 1,034.5
Earnings per share - basic	**$ 0.61**	$ 0.57	**$ 2.20**	$ 1.71
Earnings per share - diluted	**$ 0.59**	$ 0.56	**$ 2.15**	$ 1.67
Dividends per share	**$ 0.44**	$ 0.41	**$ 1.32**	$ 1.23

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Comprehensive Income

GENERAL MILLS, INC. AND SUBSIDIARIES

(Unaudited) (In Millions)

	Quarter Ended		Nine-Month Period Ended	
	Feb. 28, 2016	**Feb. 22, 2015**	**Feb. 28, 2016**	**Feb. 22, 2015**
Net earnings, including earnings attributable to redeemable and noncontrolling interests	**$ 367.7**	$ 353.8	**$ 1,346.4**	$ 1,061.6
Other comprehensive income (loss), net of tax:				
Foreign currency translation	**(39.9)**	(411.3)	**(252.4)**	(801.1)
Other fair value changes:				
Securities	**(0.2)**	0.5	**(0.2)**	0.8
Hedge derivatives	**19.0**	10.9	**29.4**	15.5
Reclassification to earnings:				
Hedge derivatives	**(3.7)**	(0.1)	**(3.3)**	5.2
Amortization of losses and prior service costs	**31.0**	27.8	**97.8**	80.8
Other comprehensive income (loss), net of tax	**6.2**	(372.2)	**(128.7)**	(698.8)
Total comprehensive income (loss)	**373.9**	(18.4)	**1,217.7**	362.8
Comprehensive income (loss) attributable to redeemable and noncontrolling interests	**20.1**	(83.4)	**4.1**	(174.2)
Comprehensive income attributable to General Mills	**$ 353.8**	$ 65.0	**$ 1,213.6**	$ 537.0

See accompanying notes to consolidated financial statements.

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Consolidated Balance Sheets

GENERAL MILLS, INC. AND SUBSIDIARIES

(In Millions, Except Par Value)

	Feb. 28, 2016 (Unaudited)	May 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 782.7**	$ 334.2
Receivables	**1,390.9**	1,386.7
Inventories	**1,350.2**	1,540.9
Deferred income taxes	**86.2**	100.1
Prepaid expenses and other current assets	**401.3**	423.8
Total current assets	**4,011.3**	3,785.7
Land, buildings, and equipment	**3,604.5**	3,783.3
Goodwill	**8,692.4**	8,874.9
Other intangible assets	**4,509.8**	4,677.0
Other assets	**813.6**	811.2
Total assets	**$ 21,631.6**	$ 21,932.1
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	**$ 1,725.6**	$ 1,684.0
Current portion of long-term debt	**1,103.5**	1,000.4
Notes payable	**640.3**	615.8
Other current liabilities	**1,784.3**	1,589.9
Total current liabilities	**5,253.7**	4,890.1
Long-term debt	**7,024.4**	7,575.3
Deferred income taxes	**1,575.6**	1,550.3
Other liabilities	**1,687.5**	1,744.8
Total liabilities	**15,541.2**	15,760.5
Redeemable interest	**826.7**	778.9
Stockholders equity:		
Common stock, 754.6 shares issued, $0.10 par value	**75.5**	75.5
Additional paid-in capital	**1,164.4**	1,296.7
Retained earnings	**12,514.0**	11,990.8
Common stock in treasury, at cost, shares of 161.0 and 155.9	**(6,450.2)**	(6,055.6)
Accumulated other comprehensive loss	**(2,414.9)**	(2,310.7)

Total stockholders equity	**4,888.8**	4,996.7
Noncontrolling interests	**374.9**	396.0
Total equity	**5,263.7**	5,392.7
Total liabilities and equity	**$ 21,631.6**	$ 21,932.1

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Total Equity and Redeemable Interest

GENERAL MILLS, INC. AND SUBSIDIARIES

(Unaudited) (In Millions, Except per Share Data)

	$.10 Par Value Common Stock (One Billion Shares Authorized)									
	Issued			Treasury						
	Shares	Par Amount	Additional Paid-In Capital	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity	Redeemable Interest
Balance as of May 25, 2014	754.6	$ 75.5	$ 1,231.8	(142.3)	$ (5,219.4)	$ 11,787.2	$ (1,340.3)	$ 470.6	$ 7,005.4	$ 984.1
Total comprehensive income (loss)						1,221.3	(970.4)	(70.0)	180.9	(122.9)
Cash dividends declared ($1.67 per share)						(1,017.7)			(1,017.7)	
Shares purchased				(22.3)	(1,161.9)				(1,161.9)	
Stock compensation plans (includes income tax benefits of $74.6)			(38.1)	8.7	325.7				287.6	
Unearned compensation related to restricted stock unit awards			(80.8)						(80.8)	
Earned compensation			111.1						111.1	
Decrease in redemption value of redeemable interest			83.2						83.2	(83.2)
Addition of noncontrolling interest								20.7	20.7	
Acquisition of interest in subsidiary			(10.5)					0.6	(9.9)	
Distributions to noncontrolling and redeemable interest holders								(25.9)	(25.9)	0.9
Balance as of May 31, 2015	754.6	75.5	1,296.7	(155.9)	(6,055.6)	11,990.8	(2,310.7)	396.0	5,392.7	778.9
Total comprehensive income (loss)						1,317.8	(104.2)	5.5	1,219.1	(1.4)
Cash dividends declared ($1.32 per share)						(794.6)			(794.6)	
Shares purchased				(10.6)	(601.8)				(601.8)	
Stock compensation plans (includes income tax benefits of $57.2)			(34.7)	5.5	207.2				172.5	
Unearned compensation related to restricted stock unit awards			(61.5)						(61.5)	
Earned compensation			68.2						68.2	
Increase in redemption value of redeemable interest			(104.3)						(104.3)	104.3
Distributions to noncontrolling and redeemable interest holders								(26.6)	(26.6)	(55.1)
Balance as of Feb. 28, 2016	**754.6**	**$ 75.5**	**$ 1,164.4**	**(161.0)**	**$ (6,450.2)**	**$ 12,514.0**	**$ (2,414.9)**	**$ 374.9**	**$ 5,263.7**	**$ 826.7**

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

GENERAL MILLS, INC. AND SUBSIDIARIES

(Unaudited) (In Millions)

	Nine-Month Period Ended	
	Feb. 28, 2016	**Feb. 22, 2015**
Cash Flows - Operating Activities		
Net earnings, including earnings attributable to redeemable and noncontrolling interests	**$ 1,346.4**	$ 1,061.6
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	**441.2**	443.7
After-tax earnings from joint ventures	**(65.1)**	(66.2)
Distributions of earnings from joint ventures	**38.6**	36.8
Stock-based compensation	**71.7**	84.5
Deferred income taxes	**37.7**	31.2
Tax benefit on exercised options	**(57.2)**	(56.6)
Pension and other postretirement benefit plan contributions	**(35.2)**	(35.3)
Pension and other postretirement benefit plan costs	**88.2**	68.3
Divestitures (gain)	**(200.6)**	
Restructuring, impairment, and other exit costs	**83.0**	275.2
Changes in current assets and liabilities, excluding the effects of acquisitions and divestitures	**206.0**	(182.2)
Other, net	**(92.2)**	(99.6)
Net cash provided by operating activities	**1,862.5**	1,561.4
Cash Flows - Investing Activities		
Purchases of land, buildings, and equipment	**(477.6)**	(490.9)
Acquisitions, net of cash acquired	**(84.0)**	(822.3)
Investments in affiliates, net	**63.7**	(92.1)
Proceeds from disposal of land, buildings, and equipment	**4.5**	1.3
Proceeds from divestitures	**825.8**	
Exchangeable note	**19.5**	
Other, net	**(16.8)**	(4.3)
Net cash provided (used) by investing activities	**335.1**	(1,408.3)
Cash Flows - Financing Activities		
Change in notes payable	**54.8**	766.4
Issuance of long-term debt	**542.9**	1,274.6
Payment of long-term debt	**(1,000.3)**	(395.6)
Proceeds from common stock issued on exercised options	**103.0**	103.1
Tax benefit on exercised options	**57.2**	56.6
Purchases of common stock for treasury	**(601.8)**	(1,161.7)
Dividends paid	**(794.6)**	(751.3)
Distributions to noncontrolling and redeemable interest holders	**(81.7)**	(24.0)
Other, net		(14.6)
Net cash used by financing activities	**(1,720.5)**	(146.5)

Effect of exchange rate changes on cash and cash equivalents		**(28.6)**		(89.7)
Increase (decrease) in cash and cash equivalents		**448.5**		(83.1)
Cash and cash equivalents - beginning of year		**334.2**		867.3
Cash and cash equivalents - end of period	**$**	**782.7**	$	784.2
Cash Flow from Changes in Current Assets and Liabilities, excluding the effects of acquisitions and divestitures:				
Receivables	**$**	**(48.7)**	$	(176.4)
Inventories		**(89.3)**		(50.8)
Prepaid expenses and other current assets		**(2.6)**		(11.7)
Accounts payable		**75.9**		(18.9)
Other current liabilities		**270.7**		75.6
Changes in current assets and liabilities	**$**	**206.0**	$	(182.2)

See accompanying notes to consolidated financial statements.

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GENERAL MILLS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Background

The accompanying Consolidated Financial Statements of General Mills, Inc. (we, us, our, General Mills, or the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the rules and regulations for reporting on Form 10-Q. Accordingly, they do not include certain information and disclosures required for comprehensive financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature, including the elimination of all intercompany transactions and any noncontrolling and redeemable interests share of those transactions. Operating results for the quarter and nine months ended February 28, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending May 29, 2016.

These statements should be read in conjunction with the Consolidated Financial Statements and footnotes included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2015. The accounting policies used in preparing these Consolidated Financial Statements are the same as those described in Note 2 to the Consolidated Financial Statements in that Form 10-K.

(2) Acquisition and Divestiture

During the second quarter of fiscal 2016, we sold our North American Green Giant product lines for $822.7 million in cash, and we recorded a pre-tax gain of $199.1 million. We received net cash proceeds of $788.0 million after transaction related costs. After the divestiture we retained a brand intangible asset on our Consolidated Balance Sheets of $30.1 million related to our continued use of the *Green Giant* brand in certain markets outside of North America.

On October 21, 2014, we acquired Annie s, Inc. (Annie s), a publicly traded food company headquartered in Berkeley, California, for an aggregate purchase price of $821.2 million, which we funded by issuing debt. We consolidated Annie s into our Consolidated Balance Sheets and recorded goodwill of $589.8 million, an indefinite lived intangible asset for the *Annie s* brand of $244.5 million, and a finite lived customer relationship asset of $23.9 million. The pro forma effects of this acquisition were not material.

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(3) Restructuring Initiatives

We are currently pursuing several multi-year restructuring initiatives designed to increase our efficiency and focus our business behind our key growth strategies. Charges related to these activities were as follows:

	Quarter Ended Feb. 28, 2016					Quarter Ended Feb. 22, 2015					
In Millions	Severance	Asset Write-offs	Accelerated Depreciation	Other	Total	Severance	Asset Write-offs	Pension Related	Accelerated Depreciation	Other	Total
Project Compass	$ (0.9)	$	$	$ 0.1	$ (0.8)	$	$	$	$	$	$
Project Century	7.4	10.4	17.0	9.1	43.9	22.3	8.8	15.6	21.6	1.6	69.9
Project Catalyst	(8.9)				(8.9)	(24.4)	11.1	6.6		8.0	1.3
Total	$ (2.4)	$ 10.4	$ 17.0	$ 9.2	$ 34.2	$ (2.1)	$ 19.9	$ 22.2	$ 21.6	$ 9.6	$ 71.2

	Nine-Month Period Ended Feb. 28, 2016						Nine-Month Period Ended Feb. 22, 2015					
In Millions	Severance	Asset Write-offs	Pension Related	Accelerated Depreciation	Other	Total	Severance	Asset Write-offs	Pension Related	Accelerated Depreciation	Other	Total
Project Compass	$ 46.2	$	$ (0.2)	$	$ 6.8	$ 52.8	$	$	$	$	$	$
Project Century	35.5	22.9	19.1	59.6	18.0	155.1	44.0	41.4	31.2	34.2	8.0	158.8
Project Catalyst	(8.7)					(8.7)	120.6	11.1	6.6		8.0	146.3
Combination of certain operational facilities							13.0	0.7			0.2	13.9
Charges associated with restructuring actions previously announced							(0.6)					(0.6)
Total	$ 73.0	$ 22.9	$ 18.9	$ 59.6	$ 24.8	$ 199.2	$ 177.0	$ 53.2	$ 37.8	$ 34.2	$ 16.2	$ 318.4

In the first quarter of fiscal 2016, we approved Project Compass, a restructuring plan designed to enable our International segment to accelerate long-term growth through increased organizational effectiveness and reduced administrative expense. In connection with this project, we expect to eliminate approximately 725 to 775 positions. We expect to incur approximately $62 to $65 million of net expenses relating to this action of which approximately $61 million will be cash. We recorded $52.8 million of restructuring charges in the nine-month period ended February 28, 2016, relating to this action. We expect this action to be completed by the end of fiscal 2017.

Project Century (Century) began in fiscal 2015 as a review of our North American manufacturing and distribution network to streamline operations and identify potential capacity reductions. In the second quarter of fiscal 2016, we broadened the scope of Project Century to identify opportunities to streamline our supply chain outside of North America. As part of the expanded project, we notified employees and their representatives of our decision to close manufacturing facilities in our International segment supply chain located in Berwick, United Kingdom and East Tamaki, New Zealand. These actions will affect approximately 285 positions. We expect to incur total restructuring charges of approximately $47 to $52 million relating to these actions, of which approximately $22 million will be cash. We recorded $17.9 million of restructuring charges in the third quarter of fiscal 2016 and $18.3 million in the nine-month period ended February 28, 2016, relating to these actions. We expect these actions to be completed by the end of fiscal 2017.

As part of Century, in the first quarter of fiscal 2016, we notified the union member employees and union representatives at our West Chicago, Illinois facility of our decision to close this cereal and dry dinner manufacturing plant in our U.S. Retail segment supply chain. This action will affect approximately 500 positions, and we expect to incur approximately $114 million of net expenses relating to this action, of which approximately $57 million will be cash. We recorded $8.2 million of restructuring charges in the third quarter of fiscal 2016 and $72.2 million in the nine-month period ended February 28, 2016, relating to this action. We expect this action to be completed by the end of fiscal 2019.

As part of Century, in the first quarter of fiscal 2016, we notified the employees at our snacks manufacturing facility in Joplin, Missouri of our decision to close this plant in our U.S. Retail segment supply chain. This action affected approximately 120 positions, and we expect to incur approximately $8 million of net expenses relating to this action, of which less than $1 million will be cash. We recorded $0.6 million of restructuring charges in the third quarter of fiscal 2016 and $8.4 million in the nine-month period ended February 28, 2016, relating to this action. We expect this action to be completed by the end of fiscal 2016.

As part of Century, in the third quarter of fiscal 2015, we approved a restructuring plan to reduce our refrigerated dough capacity and exit our Midland, Ontario, Canada and New Albany, Indiana facilities, which support our U.S. Retail, International, and Convenience Stores and Foodservice supply chains. The Midland action will affect approximately 100 positions, and we expect to incur approximately $23 million of net expenses relating to this action, of which approximately $15 million will be cash. We recorded $1.3 million of restructuring charges in the nine-month period ended February 28, 2016, relating to this action. We recorded $5.7 million of restructuring charges in the third quarter of fiscal 2015 relating to this action. The New Albany action will affect approximately 400 positions, and we expect to incur approximately $84 million of net expenses relating to this action of which approximately $42 million will be cash. We recorded $7.5 million of restructuring charges in the third quarter of fiscal 2016 and $13.0 million in the nine-month period ended February 28, 2016, relating to this action. We recorded $47.4 million of restructuring charges in the third quarter of fiscal 2015 relating to this action. We expect these actions to be completed by the end of fiscal 2018.

As part of Century, in the second quarter of fiscal 2015, we approved a restructuring plan to consolidate yogurt manufacturing capacity and exit our Methuen, Massachusetts facility in our U.S. Retail segment and Convenience Stores and Foodservice segment supply chains. This action affected approximately 250 positions. We expect to incur approximately $64 million of net expenses relating to this action of which approximately $13 million will be cash. We recorded $13.8 million of restructuring charges in the nine-month period ended February 28, 2016, relating to this action. We recorded $9.2 million of restructuring charges in the third quarter of fiscal 2015 and $34.9 million in the nine-month period ended February 22, 2015. We expect this action to be completed by the end of fiscal 2016.

As part of Century, in the second quarter of fiscal 2015, we approved a restructuring plan to eliminate excess cereal and dry mix capacity and exit our Lodi, California facility in our U.S. Retail supply chain. This action affected approximately 430 positions. We expect to incur approximately $85 million of net expenses relating to this action of which approximately $20 million will be cash. We recorded $9.4 million of restructuring charges in the third quarter of fiscal 2016 and $26.4 million in the nine-month period ended February 28, 2016, relating to this action. We recorded $8.7 million of restructuring charges in the third quarter of fiscal 2015 and $53.5 million in the nine-month period ended February 22, 2015, relating to this action. We expect this action to be completed by the end of fiscal 2016.

In addition, we recorded restructuring charges of $1.7 million in the third quarter and nine-month period ended February 28, 2016, relating to other Century actions previously announced. We recorded $17.3 million in the nine-month period ended February 22, 2015, relating to other Century actions previously announced.

During the second quarter of fiscal 2015, we approved Project Catalyst, a restructuring plan to increase organizational effectiveness and reduce overhead expense. In connection with this project, we eliminated approximately 750 positions primarily in the United States. We incurred approximately $140 million of net expenses relating to these actions of which approximately $103 million will be cash. In the third quarter of fiscal 2016, we reduced the estimate of charges related to this action by $8.9 million. We recorded $1.3 million of restructuring

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charges in the third quarter of fiscal 2015 and $146.3 million in the nine-month period ended February 22, 2015, relating to this action. These actions were largely completed in fiscal 2015.

During the first quarter of fiscal 2015, we approved a plan to combine certain Yoplait and General Mills operational facilities within our International segment to increase efficiencies and reduce costs. This action will affect approximately 240 positions. We expect to incur approximately $15 million of net expenses relating to this action of which approximately $12 million will be cash. We recorded $13.9 million of restructuring charges in the nine-month period ended February 22, 2015, relating to this action. We expect this action to be completed in fiscal 2017.

During the nine-month period ended February 28, 2016, we paid $116.2 million in cash relating to restructuring initiatives.

In addition to restructuring charges, we expect to incur approximately $111 million of additional project-related costs, which will be recorded in cost of sales, all of which will be cash. We recorded project-related costs in cost of sales of $10.1 million in the third quarter of fiscal 2016 and $39.4 million in the nine-month period ended February 28, 2016.

Restructuring charges and project-related costs are recorded in our Consolidated Statements of Earnings as follows:

	Quarter Ended		Nine-Month Period Ended	
In Millions	**Feb. 28, 2016**	**Feb. 22, 2015**	**Feb. 28, 2016**	**Feb. 22, 2015**
Cost of sales	**$ 17.3**	$ 21.9	**$ 60.9**	$ 40.5
Restructuring, impairment, and other exit costs	**16.9**	49.3	**138.3**	277.9
Total restructuring charges	**34.2**	71.2	**199.2**	318.4
Project-related costs classified in cost of sales	**$ 10.1**	$ 2.8	**$ 39.4**	$ 3.5

The roll forward of our restructuring and other exit cost reserves, included in other current liabilities, is as follows:

In Millions	**Severance**	**Contract Termination**	**Other Exit Costs**	**Total**
Reserve balance as of May 31, 2015	$ 118.6	$ 0.6	$ 1.6	$ 120.8
Fiscal 2016 charges, including foreign currency translation	69.1	1.5	4.3	74.9
Utilized in fiscal 2016	(91.9)	(0.7)	(4.5)	(97.1)
Reserve balance as of Feb. 28, 2016	**$ 95.8**	**$ 1.4**	**$ 1.4**	**$ 98.6**

The charges recognized in the roll forward of our reserves for restructuring and other exit costs do not include items charged directly to expense (e.g., asset impairment charges, the gain or loss on the sale of restructured assets, and the write-off of spare parts) and other periodic exit costs recognized as incurred, as those items are not reflected in our restructuring and other exit cost reserves on our Consolidated Balance Sheets.

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(4) Goodwill and Other Intangible Assets

The components of goodwill and other intangible assets are as follows:

In Millions	Feb. 28, 2016	May 31, 2015
Goodwill	**$ 8,692.4**	$ 8,874.9
Other intangible assets:		
Intangible assets not subject to amortization:		
Brands and other indefinite-lived intangibles	**4,119.5**	4,262.1
Intangible assets subject to amortization:		
Franchise agreements, customer relationships, and other finite-lived intangibles	**533.7**	544.0
Less accumulated amortization	**(143.4)**	(129.1)
Intangible assets subject to amortization, net	**390.3**	414.9
Other intangible assets	**4,509.8**	4,677.0
Total	**$ 13,202.2**	$ 13,551.9

Based on the carrying value of finite-lived intangible assets as of February 28, 2016, annual amortization expense for each of the next five fiscal years is estimated to be approximately $28 million.

The changes in the carrying amount of goodwill during fiscal 2016 were as follows:

In Millions	U.S. Retail	International	Convenience Stores and Foodservice	Joint Ventures	Total
Balance as of May 31, 2015	$ 6,419.0	$ 1,133.3	$ 921.1	$ 401.5	$ 8,874.9
Acquisitions	54.1	28.6			82.7
Divestiture	(180.2)	(4.3)			(184.5)
Other activity, primarily foreign currency translation		(78.7)		(2.0)	(80.7)
Balance as of Feb. 28, 2016	**$ 6,292.9**	**$ 1,078.9**	**$ 921.1**	**$ 399.5**	**$ 8,692.4**

The changes in the carrying amount of other intangible assets during fiscal 2016 were as follows:

In Millions	U.S. Retail	International	Joint Ventures	Total
Balance as of May 31, 2015	$ 3,311.9	$ 1,301.5	$ 63.6	$ 4,677.0
Acquisitions	23.1	7.0		30.1
Divestiture	(119.4)			(119.4)
Other activity, primarily foreign currency translation	(2.8)	(75.7)	0.6	(77.9)
Balance as of Feb. 28, 2016	**$ 3,212.8**	**$ 1,232.8**	**$ 64.2**	**$ 4,509.8**

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During the second quarter of fiscal 2016, we changed the date of our annual goodwill and indefinite-lived intangible asset impairment assessment from the first day of the third quarter to the first day of the second quarter to more closely align with the timing of our annual long-range planning process. As of our fiscal 2016 assessment date, there was no impairment of any of our goodwill or indefinite-lived intangible assets as their related fair values were substantially in excess of the carrying values, except for the *Mountain High* and *Uncle Toby s* brand assets. The excess fair value above the carrying value of these brand assets is as follows:

In Millions	**Carrying Value**	**Excess Fair Value Above Carrying Value**
Mountain High	$ 35.4	20%
Uncle Toby s	$ 52.2	11%

We will continue to monitor these businesses for potential impairment.

(5) Inventories

The components of inventories were as follows:

In Millions	**Feb. 28, 2016**	**May 31, 2015**
Raw materials and packaging	**$ 366.1**	$ 390.8
Finished goods	**1,123.9**	1,268.6
Grain	**82.4**	95.7
Excess of FIFO over LIFO cost	**(222.2)**	(214.2)
Total	**$ 1,350.2**	$ 1,540.9

(6) Risk Management Activities

Many commodities we use in the production and distribution of our products are exposed to market price risks. We utilize derivatives to manage price risk for our principal ingredients and energy costs, including grains (oats, wheat, and corn), oils (principally soybean), non-fat dry milk, natural gas, and diesel fuel. Our primary objective when entering into these derivative contracts is to achieve certainty with regard to the future price of commodities purchased for use in our supply chain. We manage our exposures through a combination of purchase orders, long-term contracts with suppliers, exchange-traded futures and options, and over-the-counter options and swaps. We offset our exposures based on current and projected market conditions and generally seek to acquire the inputs at as close to our planned cost as possible.

We use derivatives to manage our exposure to changes in commodity prices. We do not perform the assessments required to achieve hedge accounting for commodity derivative positions. Accordingly, the changes in the values of these derivatives are recorded currently in cost of sales in our Consolidated Statements of Earnings.

Although we do not meet the criteria for cash flow hedge accounting, we believe that these instruments are effective in achieving our objective of providing certainty in the future price of commodities purchased for use in our supply chain. Accordingly, for purposes of measuring segment operating performance certain gains and losses are reported in unallocated corporate items outside of segment operating results until such time that the exposure we are managing affects earnings. At that time we reclassify the gain or loss from unallocated corporate items to segment operating profit, allowing our operating segments to realize the economic effects of the derivative without experiencing the resulting mark-to-market volatility, which remains in unallocated corporate items.

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Unallocated corporate items for the quarters and nine-month periods ended February 28, 2016, and February 22, 2015 included:

	Quarter Ended		Nine-Month Period Ended	
	Feb. 28,	**Feb. 22,**	**Feb. 28,**	**Feb. 22,**
In Millions	**2016**	**2015**	**2016**	**2015**
Net loss on mark-to-market valuation of certain commodity positions	**$ (42.7)**	$ (64.8)	**$ (96.7)**	$ (146.4)
Net loss on commodity positions reclassified from unallocated corporate items to segment operating profit	**39.8**	28.6	**101.9**	56.6
Net mark-to-market revaluation of certain grain inventories	**(4.4)**	(7.5)	**(2.1)**	(8.2)
Net mark-to-market valuation of certain commodity positions recognized in unallocated corporate items	**$ (7.3)**	$ (43.7)	**$ 3.1**	$ (98.0)

As of February 28, 2016, the net notional value of commodity derivatives was $343.4 million, of which $146.9 million related to energy inputs and $196.5 million related to agricultural inputs. These contracts relate to inputs that generally will be utilized within the next 12 months.

During the third quarter of fiscal 2016, in advance of planned debt financing, we entered into $400.0 million of treasury locks with an average fixed rate of 2.1 percent due February 15, 2017.

The fair values of the derivative positions used in our risk management activities and other assets recorded at fair value were not material as of February 28, 2016, and were Level 1 or Level 2 assets and liabilities in the fair value hierarchy. We did not significantly change our valuation techniques from prior periods.

We offer certain suppliers access to a third party service that allows them to view our scheduled payments online. The third party service also allows suppliers to finance advances on our scheduled payments at the sole discretion of the supplier and the third party. We have no economic interest in these financing arrangements and no direct relationship with the suppliers, the third party, or any financial institutions concerning this service. All of our accounts payable remain as obligations to our suppliers as stated in our supplier agreements. As of February 28, 2016, $508.0 million of our total accounts payable is payable to suppliers who utilize this third party service.

(7) Debt

The components of notes payable were as follows:

	Feb. 28,	**May 31,**
In Millions	**2016**	**2015**
U.S. commercial paper	**$ 334.5**	$ 432.0
Financial institutions	**305.8**	183.8
Total	**$ 640.3**	$ 615.8

To ensure availability of funds, we maintain bank credit lines sufficient to cover our outstanding notes payable. Commercial paper is a continuing source of short-term financing. We have commercial paper programs available to us in the United States and Europe. We also have committed, uncommitted, and asset-backed credit lines that support our foreign operations.

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The following table details the fee-paid committed and uncommitted credit lines we had available as of February 28, 2016:

In Billions	**Facility Amount**	**Borrowed Amount**
Credit facility expiring:		
April 2017	$ 1.7	$
May 2019	1.0	
June 2019	0.2	0.2
Total committed credit facilities	2.9	0.2
Uncommitted credit facilities	0.4	0.1
Total committed and uncommitted credit facilities	$ 3.3	$ 0.3

In June 2014, our subsidiary Yoplait SAS entered into a 200.0 million fee-paid committed credit facility that is scheduled to expire in June 2019.

The credit facilities contain covenants, including a requirement to maintain a fixed charge coverage ratio of at least 2.5 times. We were in compliance with all credit facility covenants as of February 28, 2016.

Long-Term Debt

The fair values and carrying amounts of long-term debt, including the current portion, were $8,539.2 million and $8,127.9 million, respectively, as of February 28, 2016. The fair value of long-term debt was estimated using market quotations and discounted cash flows based on our current incremental borrowing rates for similar types of instruments. Long-term debt is a Level 2 liability in the fair value hierarchy.

In January 2016, we issued 500.0 million principal amount of floating-rate notes due January 15, 2020. Interest on the note is payable quarterly in arrears. We may redeem the notes if certain tax laws change and we would be obligated to pay additional amounts on the notes. These notes are senior unsecured obligations that include a change of control repurchase provision. The net proceeds were used to repay a portion of our maturing long-term debt.

In January 2016, we repaid $250 million of 0.875 percent fixed-rate notes and $750 million of floating-rate notes.

In April 2015, we issued 500.0 million principal amount of 1.0 percent fixed-rate notes due April 27, 2023 and 400.0 million principal amount of 1.5 percent fixed-rate notes due April 27, 2027. Interest on the notes is payable annually in arrears. We may redeem the notes in whole, or in part, at the applicable redemption price at any time. These notes are senior unsecured obligations that include a change of control repurchase provision. The net proceeds were used for general corporate purposes and to reduce our commercial paper borrowings.

In March 2015, we repaid $750.0 million of 5.2 percent fixed-rate notes.

In October 2014, we issued $500.0 million aggregate principal amount of 1.4 percent fixed-rate notes due October 20, 2017 and $500.0 million aggregate principal amount of 2.2 percent fixed-rate notes due October 21, 2019. Interest on the notes is payable semi-annually in arrears. We may redeem the notes in whole, or in part, at the applicable redemption price at any time. The notes are senior unsecured obligations that include a change of control repurchase provision. The net proceeds were used to fund our acquisition of Annie s and for general corporate purposes.

In June 2014, we issued 200.0 million principal amount of 2.2 percent fixed-rate senior unsecured notes due June 24, 2021 in a private placement offering. Interest on the notes is payable semi-annually in arrears. The notes may be redeemed in whole, or in part, at our option at any time for a specific make-whole amount and include a change of control repurchase provision. The net proceeds were used to refinance existing debt.

In June 2014, we repaid 290.0 million of floating-rate notes.

Certain of our long-term debt agreements contain restrictive covenants. As of February 28, 2016, we were in compliance with all of these covenants.

(8) Redeemable and Noncontrolling Interests

We have a 51 percent controlling interest in Yoplait SAS and a 50 percent interest in Yoplait Marques SNC and Liberté Marques Sàrl. Sodiaal International (Sodiaal) holds the remaining interests in each of the entities. On the acquisition date, we recorded the $904.4 million fair value of Sodiaal s 49 percent euro-denominated interest in Yoplait SAS as a redeemable interest on our Consolidated Balance Sheets. Sodiaal has the ability to put a limited portion of its redeemable interest to us at fair value once per year through a maximum term expiring December 2020. We adjust the value of the redeemable interest through additional paid-in capital on our Consolidated Balance Sheets quarterly to the redeemable interest s redemption value, which approximates its fair value. Yoplait SAS pays dividends annually if it meets certain financial metrics set forth in its shareholders agreement. As of February 28, 2016, the redemption value of the euro-denominated redeemable interest was $826.7 million.

A subsidiary of Yoplait SAS has entered into an exclusive milk supply agreement for its European operations with Sodiaal through July 1, 2021. Net purchases totaled $213.5 million for the nine-month period ended February 28, 2016 and $213.4 million for the nine-month period ended February 22, 2015.

On the acquisition dates, we recorded the $281.4 million fair value of Sodiaal s 50 percent euro-denominated interest in Yoplait Marques SNC and 50 percent Canadian dollar-denominated interest in Liberté Marques Sàrl as noncontrolling interests on our Consolidated Balance Sheets. Yoplait Marques SNC earns a royalty stream through a licensing agreement with Yoplait SAS for the rights to *Yoplait* and related trademarks. Liberté Marques Sàrl earns a royalty stream through licensing agreements with certain Yoplait group companies for the rights to *Liberté* and related trademarks. These entities pay dividends annually based on their available cash as of their fiscal year end.

The third-party holder of the Class A Interests in our General Mills Cereals, LLC (GMC) consolidated subsidiary receives quarterly preferred distributions from available net income based on the application of a floating preferred return rate to the holder s capital account balance established in the most recent mark-to-market valuation (currently $251.5 million). The preferred return rate is adjusted every three years through a negotiated agreement with the Class A Interest holder or through a remarketing auction. On June 1, 2015, the floating preferred return rate on GMC s Class A Interests was reset to the sum of three-month LIBOR plus 125 basis points.

Our noncontrolling interests contain restrictive covenants. As of February 28, 2016, we were in compliance with all of these covenants.

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(9) Stockholders Equity

The following tables provide details of total comprehensive income (loss):

	Quarter Ended Feb. 28, 2016					Quarter Ended Feb. 22, 2015				
	General Mills			Noncontrolling Interests	Redeemable Interest	General Mills			Noncontrolling Interests	Redeemable Interest
In Millions	**Pretax**	**Tax**	**Net**	**Net**	**Net**	**Pretax**	**Tax**	**Net**	**Net**	**Net**
Net earnings, including earnings attributable to redeemable and noncontrolling interests			**$ 361.7**	**$ 1.7**	**$ 4.3**			$ 343.2	$ 2.1	$ 8.5
Other comprehensive income (loss):										
Foreign currency translation	**$ (50.4)**	**$**	**(50.4)**	**9.5**	**1.0**	$ (319.3)	$	(319.3)	(29.2)	(62.8)
Other fair value changes:										
Securities	**(0.3)**	**0.1**	**(0.2)**			0.6	(0.1)	0.5		
Hedge derivatives	**15.7**	**(0.2)**	**15.5**		**3.5**	20.3	(6.8)	13.5		(2.6)
Reclassification to earnings:										
Hedge derivatives (a)	**(4.7)**	**0.9**	**(3.8)**		**0.1**	(0.8)	0.1	(0.7)		0.6
Amortization of losses and prior service costs (b)	**49.7**	**(18.7)**	**31.0**			44.8	(17.0)	27.8		
Other comprehensive income (loss)	**$ 10.0**	**$ (17.9)**	**(7.9)**	**9.5**	**4.6**	$ (254.4)	$ (23.8)	(278.2)	(29.2)	(64.8)
Total comprehensive income (loss)			**$ 353.8**	**$ 11.2**	**$ 8.9**			$ 65.0	$ (27.1)	$ (56.3)

(a) (Gain) loss reclassified from AOCI into earnings is reported in interest, net for interest rate swaps and in cost of sales and selling, general, and administrative (SG&A) expenses for foreign exchange contracts.

(b) Loss reclassified from AOCI into earnings is reported in SG&A expenses.

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In Millions	Nine-Month Period Ended Feb. 28, 2016 General Mills Pretax	Tax	Net	Noncontrolling Interests Net	Redeemable Interest Net	Nine-Month Period Ended Feb. 22, 2015 General Mills Pretax	Tax	Net	Noncontrolling Interests Net	Redeemable Interest Net
Net earnings, including earnings attributable to redeemable and noncontrolling interests			**$ 1,317.8**	**$ 8.2**	**$ 20.4**			$ 1,034.5	$ 7.7	$ 19.4
Other comprehensive loss:										
Foreign currency translation	**$ (223.1)**	**$**	**(223.1)**	**(2.7)**	**(26.6)**	$ (601.4)	$	(601.4)	(66.8)	(132.9)
Other fair value changes:										
Securities	**(0.3)**	**0.1**	**(0.2)**			1.2	(0.4)	0.8		
Hedge derivatives	**31.0**	**(4.4)**	**26.6**		**2.8**	27.4	(8.3)	19.1		(3.6)
Reclassification to earnings:										
Hedge derivatives (a)	**(7.0)**	**1.7**	**(5.3)**		**2.0**	4.0	(0.8)	3.2		2.0
Amortization of losses and prior service costs (b)	**157.1**	**(59.3)**	**97.8**			131.1	(50.3)	80.8		
Other comprehensive loss	**$ (42.3)**	**$ (61.9)**	**(104.2)**	**(2.7)**	**(21.8)**	$ (437.7)	$ (59.8)	(497.5)	(66.8)	(134.5)
Total comprehensive income (loss)			**$ 1,213.6**	**$ 5.5**	**$ (1.4)**			$ 537.0	$ (59.1)	$ (115.1)

(a) (Gain) loss reclassified from AOCI into earnings is reported in interest, net for interest rate swaps and in cost of sales and SG&A expenses for foreign exchange contracts.

(b) Loss reclassified from AOCI into earnings is reported in SG&A expenses.

Accumulated other comprehensive loss balances, net of tax effects, were as follows:

In Millions	Feb. 28, 2016	May 31, 2015
Foreign currency translation adjustments	**$ (759.7)**	$ (536.6)
Unrealized gain (loss) from:		
Securities	**3.5**	3.7
Hedge derivatives	**(7.5)**	(28.8)
Pension, other postretirement, and postemployment benefits:		
Net actuarial loss	**(1,664.1)**	(1,756.1)
Prior service costs	**12.9**	7.1
Accumulated other comprehensive loss	**$ (2,414.9)**	$ (2,310.7)

(10) Stock Plans

We have various stock-based compensation programs under which awards, including stock options, restricted stock, restricted stock units, and performance awards, may be granted to employees and non-employee directors. These programs and related accounting are described in Note 11 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2015.

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Compensation expense related to stock-based payments recognized in the Consolidated Statements of Earnings was as follows:

	Quarter Ended		Nine-Month Period Ended	
	Feb. 28,	Feb. 22,	Feb. 28,	Feb. 22,
In Millions	**2016**	**2015**	**2016**	**2015**
Compensation expense related to stock-based payments	**$ 19.1**	$ 25.4	**$ 73.4**	$ 93.1

Compensation expense related to stock-based payments recognized in the Consolidated Statements of Earnings includes amounts recognized in restructuring, impairment, and other exit costs.

As of February 28, 2016, unrecognized compensation expense related to non-vested stock options, restricted stock units, and performance award units was $109.4 million. This expense will be recognized over 20 months, on average.

Net cash proceeds from the exercise of stock options less shares used for withholding taxes and the intrinsic value of options exercised were as follows:

	Nine-Month Period Ended	
	Feb. 28,	Feb. 22,
In Millions	**2016**	**2015**
Net cash proceeds	**$ 103.0**	$ 103.1
Intrinsic value of options exercised	**$ 141.7**	$ 121.6

We estimate the fair value of each stock option on the grant date using a Black-Scholes option-pricing model. Black-Scholes option-pricing models require us to make predictive assumptions regarding future stock price volatility, employee exercise behavior, and dividend yield. We estimate our future stock price volatility using the historical volatility over the expected term of the option, excluding time periods of volatility we believe a marketplace participant would exclude in estimating our stock price volatility. We also have considered, but did not use, implied volatility in our estimate, because trading activity in options on our stock, especially those with tenors of greater than 6 months, is insufficient to provide a reliable measure of expected volatility. Our method of selecting the other valuation assumptions is explained in Note 11 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2015.

The estimated fair values of stock options granted and the assumptions used for the Black-Scholes option-pricing model were as follows:

	Nine-Month Period Ended	
	Feb. 28,	Feb. 22,
	2016	**2015**
Estimated fair values of stock options granted	**$ 7.24**	$ 7.22
Assumptions:		
Risk-free interest rate	**2.4%**	2.6%
Expected term	**8.5 years**	8.5 years
Expected volatility	**17.6%**	17.5%
Dividend yield	**3.2%**	3.0%

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Information on stock option activity follows:

	Options Outstanding (Thousands)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (Millions)
Balance as of May 31, 2015	39,077.2	$ 34.35		
Granted	1,930.2	55.72		
Exercised	(4,747.6)	28.34		
Forfeited or expired	(125.8)	48.03		
Outstanding as of Feb. 28, 2016	**36,134.0**	**$ 36.23**	**4.27**	**$ 822.8**
Exercisable as of Feb. 28, 2016	**26,102.8**	**$ 31.85**	**3.01**	**$ 708.7**

Information on restricted stock and performance award unit activity follows:

	Equity Classified		Liability Classified	
	Share-Settled Units (Thousands)	Weighted-Average Grant-Date Fair Value	Share-Settled Units (Thousands)	Weighted-Average Grant-Date Fair Value
Non-vested as of May 31, 2015	6,235.6	$ 46.44	237.0	$ 44.84
Granted	1,267.8	55.91	63.8	55.82
Vested	(2,028.6)	47.08	(69.5)	40.55
Forfeited	(219.2)	48.77	(17.1)	51.56
Non-vested as of Feb. 28, 2016	**5,255.6**	**$ 48.39**	**214.2**	**$ 48.40**

The total grant-date fair value of restricted stock unit awards that vested in the nine-month period ended February 28, 2016 was $98.4 million, and restricted stock units with a grant-date fair value of $84.9 million vested in the nine-month period ended February 22, 2015.

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(11) Earnings Per Share

Basic and diluted earnings per share (EPS) were calculated using the following:

In Millions, Except per Share Data	Quarter Ended Feb. 28, 2016	Quarter Ended Feb. 22, 2015	Nine-Month Period Ended Feb. 28, 2016	Nine-Month Period Ended Feb. 22, 2015
Net earnings attributable to General Mills	**$ 361.7**	$ 343.2	**$ 1,317.8**	$ 1,034.5
Average number of common shares - basic EPS	**595.6**	598.2	**599.1**	604.5
Incremental share effect from: (a)				
Stock options	**9.6**	11.1	**9.9**	11.5
Restricted stock, restricted stock units, and other	**3.3**	4.5	**3.2**	4.3
Average number of common shares - diluted EPS	**608.5**	613.8	**612.2**	620.3
Earnings per share - basic	**$ 0.61**	$ 0.57	**$ 2.20**	$ 1.71
Earnings per share - diluted	**$ 0.59**	$ 0.56	**$ 2.15**	$ 1.67

(a) Incremental shares from stock options, restricted stock units, and performance share units are computed by the treasury stock method. Stock options, restricted stock units, and performance share units excluded from our computation of diluted EPS because they were not dilutive were as follows:

In Millions	Quarter Ended Feb. 28, 2016	Quarter Ended Feb. 22, 2015	Nine-Month Period Ended Feb. 28, 2016	Nine-Month Period Ended Feb. 22, 2015
Anti-dilutive stock options, restricted stock units, and performance share units	**1.2**	2.2	**2.7**	2.0

(12) Share Repurchases

Share repurchases were as follows:

In Millions	Quarter Ended Feb. 28, 2016	Quarter Ended Feb. 22, 2015	Nine-Month Period Ended Feb. 28, 2016	Nine-Month Period Ended Feb. 22, 2015
Shares of common stock (a)	**1.1**	3.7	**10.6**	22.3
Aggregate purchase price	**$ 64.5**	$ 192.9	**$ 601.8**	$ 1,161.7

(a) The number of shares repurchased during the third quarter of fiscal 2016 and nine-month period ended February 28, 2016, include 0.2 million and 3.9 million shares, respectively, repurchased under an accelerated share repurchase (ASR) agreement.

During the second quarter of fiscal 2016, we entered into an ASR agreement with an unrelated third party financial institution to repurchase an aggregate of $225.0 million of our outstanding common stock. Under the ASR agreement, we paid $225.0 million to the financial institution and received 3.7 million shares of common stock with a fair value of $213.3 million during the second quarter of fiscal 2016. We received an additional 0.2 million shares of common stock upon completion of the ASR agreement during the third quarter of fiscal 2016. As of November 29, 2015, we recorded this transaction as an increase in treasury stock of $213.3 million, and recorded the remaining $11.7 million as a decrease to additional paid in capital on our Consolidated Balance Sheets. Upon completion of the

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ASR agreement in the third quarter of fiscal 2016, we reclassified the $11.7 million to treasury stock from additional paid-in capital on our Consolidated Balance Sheets.

(13) Statements of Cash Flows

Our Consolidated Statements of Cash Flows include the following:

	Nine-Month Period Ended	
In Millions	**Feb. 28, 2016**	**Feb. 22, 2015**
Net cash interest payments	**$ 269.6**	$ 278.5
Net income tax payments	**$ 421.1**	$ 449.8

(14) Retirement and Postemployment Benefits

Components of net periodic benefit expense are as follows:

	Defined Benefit Pension Plans Quarter Ended		Other Postretirement Benefit Plans Quarter Ended		Postemployment Benefit Plans Quarter Ended	
In Millions	**Feb. 28, 2016**	**Feb. 22, 2015**	**Feb. 28, 2016**	**Feb. 22, 2015**	**Feb. 28, 2016**	**Feb. 22, 2015**
Service cost	**$ 33.5**	$ 34.3	**$ 4.7**	$ 5.6	**$ 1.9**	$ 1.8
Interest cost	**66.9**	62.3	**11.0**	11.8	**1.0**	1.1
Expected return on plan assets	**(124.2)**	(119.1)	**(11.5)**	(10.0)		
Amortization of losses	**47.6**	35.4	**1.7**	1.2	**0.1**	0.1
Amortization of prior service costs (credits)	**1.2**	1.9	**(1.4)**	(0.4)	**0.6**	0.6
Other adjustments	**0.1**	10.6		3.1	**2.8**	3.2
Settlement or curtailment losses		7.9		0.5		
Net expense	**$ 25.1**	$ 33.3	**$ 4.5**	$ 11.8	**$ 6.4**	$ 6.8

	Defined Benefit Pension Plans Nine-Month Period Ended		Other Postretirement Benefit Plans Nine-Month Period Ended		Postemployment Benefit Plans Nine-Month Period Ended	
In Millions	**Feb. 28, 2016**	**Feb. 22, 2015**	**Feb. 28, 2016**	**Feb. 22, 2015**	**Feb. 28, 2016**	**Feb. 22, 2015**
Service cost	**$ 100.9**	$ 103.1	**$ 14.2**	$ 16.8	**$ 5.7**	$ 5.6
Interest cost	**200.9**	187.2	**33.0**	35.3	**3.0**	3.2
Expected return on plan assets	**(372.8)**	(357.6)	**(34.6)**	(30.1)		
Amortization of losses	**142.3**	106.2	**5.0**	3.7	**0.5**	0.5
Amortization of prior service costs (credits)	**3.6**	5.6	**(4.1)**	(1.2)	**1.8**	1.8
Other adjustments	**5.1**	15.0	**2.4**	3.4	**9.3**	9.5
Settlement or curtailment losses	**11.3**	18.0	**0.2**	1.3		
Net expense	**$ 91.3**	$ 77.5	**$ 16.1**	$ 29.2	**$ 20.3**	$ 20.6

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(15) Business Segment Information

We operate in the consumer foods industry. We have three operating segments by type of customer and geographic region as follows: U.S. Retail; International; and Convenience Stores and Foodservice.

Our U.S. Retail segment reflects business with a wide variety of grocery stores, mass merchandisers, membership stores, natural food chains, and drug, dollar and discount chains operating throughout the United States. Our product categories in this business segment are ready-to-eat cereals, refrigerated yogurt, soup, meal kits, refrigerated and frozen dough products, dessert and baking mixes, frozen pizza and pizza snacks, grain, fruit and savory snacks, and a wide variety of organic products including meal kits, granola bars, and cereal.

Our International segment consists of retail and foodservice businesses outside of the United States. Our product categories include ready-to-eat cereals, shelf stable and frozen vegetables, meal kits, refrigerated and frozen dough products, dessert and baking mixes, frozen pizza snacks, refrigerated yogurt, grain and fruit snacks, and super-premium ice cream and frozen desserts. We also sell super-premium ice cream and frozen desserts directly to consumers through owned retail shops. Our International segment also includes products manufactured in the United States for export, mainly to Caribbean and Latin American markets, as well as products we manufacture for sale to our international joint ventures. Revenues from export activities and franchise fees are reported in the region or country where the end customer is located.

In our Convenience Stores and Foodservice segment our major product categories are ready-to-eat cereals, snacks, refrigerated yogurt, frozen meals, unbaked and fully baked frozen dough products, baking mixes, and flour. Many products we sell are branded to the consumer and nearly all are branded to our customers. We sell to distributors and operators in many customer channels including foodservice, convenience stores, vending, and supermarket bakeries. Substantially all of this segment s operations are located in the United States.

Operating profit for these segments excludes unallocated corporate items, gain on a divestitures, and restructuring, impairment, and other exit costs. Unallocated corporate items include corporate overhead expenses, variances to planned domestic employee benefits and incentives, contributions to the General Mills Foundation, asset and liability remeasurement impact of hyperinflationary economies, restructuring initiative project-related costs, and other items that are not part of our measurement of segment operating performance. These include gains and losses arising from the revaluation of certain grain inventories and gains and losses from mark-to-market valuation of certain commodity positions until passed back to our operating segments. These items affecting operating profit are centrally managed at the corporate level and are excluded from the measure of segment profitability reviewed by executive management. Under our supply chain organization, our manufacturing, warehouse, and distribution activities are substantially integrated across our operations in order to maximize efficiency and productivity. As a result, fixed assets and depreciation and amortization expenses are neither maintained nor available by operating segment.

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Our operating segment results were as follows:

In Millions	**Quarter Ended Feb. 28, 2016**	**Quarter Ended Feb. 22, 2015**	**Nine-Month Period Ended Feb. 28, 2016**	**Nine-Month Period Ended Feb. 22, 2015**
Net sales:				
U.S. Retail	**$ 2,476.8**	$ 2,651.9	**$ 7,769.9**	$ 7,957.8
International	**1,071.9**	1,233.9	**3,428.1**	3,906.1
Convenience Stores and Foodservice	**453.7**	465.1	**1,437.2**	1,467.6
Total	**$ 4,002.4**	$ 4,350.9	**$ 12,635.2**	$ 13,331.5
Operating profit:				
U.S. Retail	**$ 518.4**	$ 520.8	**$ 1,748.5**	$ 1,594.1
International	**70.4**	108.4	**323.6**	388.7
Convenience Stores and Foodservice	**90.6**	69.0	**273.2**	252.5
Total segment operating profit	**679.4**	698.2	**2,345.3**	2,235.3
Unallocated corporate items	**77.7**	111.7	**232.3**	303.7
Divestitures (gain)	**(1.5)**		**(200.6)**	
Restructuring, impairment, and other exit costs	**16.9**	49.3	**138.3**	277.9
Operating profit	**$ 586.3**	$ 537.2	**$ 2,175.3**	$ 1,653.7

(16) New Accounting Pronouncements

In the first quarter of fiscal 2015, we adopted new accounting requirements on the financial statement presentation of unrecognized tax benefits when a net operating loss, a similar tax loss, or a tax credit carryforward exists. The adoption of this guidance did not have an impact on our results of operations or financial position.

In the first quarter of fiscal 2016, we elected to adopt new accounting requirements for the classification of debt issuance costs presented in the balance sheet as a direct reduction from the carrying amount of the debt liability. This presentation change has been implemented retroactively. The adoption of this guidance did not have a material impact on our results of operations or financial position.

(17) Subsequent Events

On March 16, 2016, we sold our General Mills de Venezuela CA subsidiary to a third party and exited our business in Venezuela. As a result of this transaction, we expect to record a loss on the sale of approximately $35 million pre-tax in the fourth quarter of fiscal 2016.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

INTRODUCTION

This Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the MD&A included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2015 for important background regarding, among other things, our key business drivers. Significant trademarks and service marks used in our business are set forth in *italics* herein. Certain terms used throughout this report are defined in the Glossary section below.

CONSOLIDATED RESULTS OF OPERATIONS

Third Quarter Results

For the third quarter of fiscal 2016, net sales declined 8 percent to $4,002 million and decreased 4 percent on a constant-currency basis, compared to the same period last year. Total segment operating profit was $679 million, 3 percent lower than the third quarter of fiscal 2015 and 1 percent lower on a constant-currency basis. Net earnings attributable to General Mills were $362 million in the third quarter of fiscal 2016, up 5 percent from $343 million last year, and diluted earnings per share (EPS) of $0.59 in the third quarter of fiscal 2016 were up 5 percent from $0.56 last year. These results include the mark-to-market valuation of certain commodity positions and grain inventories, restructuring charges, project-related costs, Annie s integration costs, and the impact of asset and liability remeasurement for Venezuela. Diluted EPS excluding these items affecting comparability totaled $0.65 in the third quarter of fiscal 2016, down 7 percent from $0.70 in the same period last year. Diluted EPS excluding certain items affecting comparability on a constant-currency basis decreased 6 percent compared to the third quarter of fiscal 2015 (see the Non-GAAP Measures section below for our use of these measures not defined by GAAP).

Net sales declined 8 percent to $4,002 million for the third quarter of fiscal 2016 compared to $4,351 million in the same period last year. Components of net sales growth are shown in the following table:

Third Quarter of Fiscal 2016 vs. Third Quarter of Fiscal 2015	U.S. Retail	International	Convenience Stores and Foodservice	Combined Segments
Contributions from volume growth (a)	(8)pts	Flat	Flat	(5)pts
Net price realization and mix	1 pt	Flat	(2)pts	1 pt
Foreign currency exchange	NA	(13)pts	NM	(4)pts
Net sales growth	(7)pts	(13)pts	(2)pts	(8)pts

(a) Measured in tons based on the stated weight of our product shipments.

Net sales growth in the third quarter of fiscal 2016 included a 3 percent decrease from the impact of the divestiture of the North America Green Giant product lines (Green Giant) in the second quarter of fiscal 2016.

Cost of sales decreased $330 million from the third quarter of fiscal 2015 to $2,645 million. The decrease included a $138 million decrease attributable to lower volume and a $154 million decrease attributable to product rate and mix. The impact from both volume and product rate and mix included the effects of the divestiture of Green Giant. We recorded a $7 million net increase in cost of sales related to the mark-to-market valuation of certain commodity positions and grain inventories in the third quarter of fiscal 2016 compared to a net increase of $44 million in the third quarter of fiscal 2015. We recorded $17 million of restructuring charges in cost of sales in the third quarter of fiscal 2016 compared to $22 million in the same period last year. We also recorded $10 million of restructuring initiative project-related costs in the third quarter of fiscal 2016 compared to $3 million in the same period last year. (Please refer to Note 3 to the Consolidated Financial Statements in Part I, Item 1 of this report). In addition, we recorded a $3 million foreign exchange loss related to the Venezuela currency devaluation in the third quarter of fiscal 2015.

Selling, general, and administrative (SG&A) expenses decreased $33 million to $756 million in the third quarter of fiscal 2016 compared to the same period in fiscal 2015. The decrease in SG&A expenses primarily reflects a 6

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percentage point decrease in media and advertising expense, and savings from Project Catalyst and our other cost management initiatives. We also recorded $4 million of integration costs resulting from the acquisition of Annie s and a $4 million foreign exchange loss related to the Venezuela currency devaluation in the third quarter of fiscal 2015. SG&A expenses as a percent of net sales in the third quarter of fiscal 2016 increased 80 basis points compared with the third quarter of fiscal 2015.

Restructuring, impairment, and other exit costs totaled $17 million in the third quarter of fiscal 2016 compared to $49 million in the same period last year.

Total charges associated with our restructuring initiatives recognized in the third quarter of fiscal 2016 consisted of the following:

	Quarter Ended February 28, 2016		Quarter Ended February 22, 2015	
In Millions	**Charge**	**Cash**	**Charge**	**Cash**
Compass	**$ (0.8)**	**$ 3.6**	$	$
Total Century (a)	**43.9**	**24.9**	69.9	1.8
Catalyst	**(8.9)**	**11.3**	1.3	28.4
Combination of certain operational facilities		**1.1**		