

GENERAL MILLS INC
Form 10-Q
September 18, 2014
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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 August 24, 2014

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 No

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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 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 (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

Number of shares of Common Stock outstanding as of September 5, 2014: 603,747,687 (excluding 150,865,641 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 | |
|--|--------------------------|--------------------------|
| | Aug. 24, 2014 | Aug. 25, 2013 |
| Net sales | \$ 4,268.4 | \$ 4,372.7 |
| Cost of sales | 2,829.7 | 2,759.7 |
| Selling, general, and administrative expenses | 867.2 | 875.4 |
| Restructuring, impairment, and other exit costs | 14.0 | 2.8 |
| Operating profit | 557.5 | 734.8 |
| Interest, net | 78.5 | 78.8 |
| Earnings before income taxes and after-tax earnings from joint ventures | 479.0 | 656.0 |
| Income taxes | 152.6 | 212.0 |
| After-tax earnings from joint ventures | 26.0 | 24.1 |
| Net earnings, including earnings attributable to redeemable and noncontrolling interests | 352.4 | 468.1 |
| Net earnings attributable to redeemable and noncontrolling interests | 7.2 | 8.8 |
| Net earnings attributable to General Mills | \$ 345.2 | \$ 459.3 |
| Earnings per share - basic | \$ 0.56 | \$ 0.71 |
| Earnings per share - diluted | \$ 0.55 | \$ 0.70 |
| Dividends per share | \$ 0.41 | \$ 0.38 |

See accompanying notes to consolidated financial statements.

Table of Contents**Consolidated Statements of Comprehensive Income**

GENERAL MILLS, INC. AND SUBSIDIARIES

(Unaudited) (In Millions)

| | Quarter Ended | |
|--|--------------------------|--------------------------|
| | Aug. 24, 2014 | Aug. 25, 2013 |
| Net earnings, including earnings attributable to redeemable and noncontrolling interests | \$ 352.4 | \$ 468.1 |
| Other comprehensive income (loss), net of tax: | | |
| Foreign currency translation | (92.5) | (86.6) |
| Other fair value changes: | | |
| Securities | 0.1 | 0.2 |
| Hedge derivatives | (1.2) | 12.1 |
| Reclassification to earnings: | | |
| Hedge derivatives | 3.5 | (2.0) |
| Amortization of losses and prior service costs | 23.5 | 26.4 |
| Other comprehensive loss, net of tax | (66.6) | (49.9) |
| Total comprehensive income | 285.8 | 418.2 |
| Comprehensive income (loss) attributable to redeemable and noncontrolling interests | (24.8) | 44.0 |
| Comprehensive income attributable to General Mills | \$ 310.6 | \$ 374.2 |

See accompanying notes to consolidated financial statements.

Table of Contents**Consolidated Balance Sheets**

GENERAL MILLS, INC. AND SUBSIDIARIES

(In Millions, Except Par Value)

| | Aug. 24, 2014 (Unaudited) | May 25, 2014 |
|--|---------------------------------|-----------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 841.2 | \$ 867.3 |
| Receivables | 1,623.3 | 1,483.6 |
| Inventories | 1,823.3 | 1,559.4 |
| Deferred income taxes | 66.6 | 74.1 |
| Prepaid expenses and other current assets | 341.1 | 409.1 |
| | | |
| Total current assets | 4,695.5 | 4,393.5 |
| Land, buildings, and equipment | 3,907.0 | 3,941.9 |
| Goodwill | 8,608.1 | 8,650.5 |
| Other intangible assets | 4,967.9 | 5,014.3 |
| Other assets | 1,194.3 | 1,145.5 |
| | | |
| Total assets | \$ 23,372.8 | \$ 23,145.7 |
| | | |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,571.3 | \$ 1,611.3 |
| Current portion of long-term debt | 855.4 | 1,250.6 |
| Notes payable | 1,795.4 | 1,111.7 |
| Other current liabilities | 1,571.0 | 1,449.9 |
| | | |
| Total current liabilities | 5,793.1 | 5,423.5 |
| Long-term debt | 6,669.1 | 6,423.5 |
| Deferred income taxes | 1,668.6 | 1,666.0 |
| Other liabilities | 1,600.1 | 1,643.2 |
| | | |
| Total liabilities | 15,730.9 | 15,156.2 |
| | | |
| Redeemable interest | 959.1 | 984.1 |
| | | |
| Stockholders' equity: | | |
| Common stock, 754.6 shares issued, \$0.10 par value | 75.5 | 75.5 |
| Additional paid-in capital | 1,237.5 | 1,231.8 |
| Retained earnings | 11,878.0 | 11,787.2 |
| Common stock in treasury, at cost, shares of 149.2 and 142.3 | (5,613.8) | (5,219.4) |
| Accumulated other comprehensive loss | (1,374.9) | (1,340.3) |

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| | | |
|------------------------------|--------------------|-------------|
| Total stockholders' equity | 6,202.3 | 6,534.8 |
| Noncontrolling interests | 480.5 | 470.6 |
| Total equity | 6,682.8 | 7,005.4 |
| Total liabilities and equity | \$ 23,372.8 | \$ 23,145.7 |

See accompanying notes to consolidated financial statements.

Table of Contents**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) | | | Treasury | | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Non- controlling Interests | Total Equity | Redeemable Interest |
|---|---|---|-------------------|-----------------|---------------------|------------------------------|--|---|-------------------------|--------------------------------|
| | Issued | Additional Paid-In Capital | Shares | Amount | Shares | | | | | |
| Balance as of May 26, 2013 | 754.6 | \$ 75.5 | \$ 1,166.6 | (113.8) | \$ (3,687.2) | \$ 10,702.6 | \$ (1,585.3) | \$ 456.3 | \$ 7,128.5 | \$ 967.5 |
| Total comprehensive income | | | | | | 1,824.4 | 245.0 | 24.9 | 2,094.3 | 70.0 |
| Cash dividends declared (\$1.17 per share) | | | | | | (739.8) | | | (739.8) | |
| Shares purchased | | | 30.0 | (35.6) | (1,775.3) | | | | (1,745.3) | |
| Stock compensation plans (includes income tax benefits of \$69.3) | | | 13.8 | 7.1 | 243.1 | | | | 256.9 | |
| Unearned compensation related to restricted stock unit awards | | | (91.3) | | | | | | (91.3) | |
| Earned compensation | | | 108.5 | | | | | | 108.5 | |
| Decrease in redemption value of redeemable interest | | | 4.2 | | | | | | 4.2 | (4.2) |
| Addition of noncontrolling interest | | | | | | | | 17.6 | 17.6 | |
| Distributions to noncontrolling and redeemable interest holders | | | | | | | | (28.2) | (28.2) | (49.2) |
| 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 | | | | | | 345.2 | (34.6) | (10.0) | 300.6 | (14.8) |
| Cash dividends declared (\$0.41 per share) | | | | | | (254.4) | | | (254.4) | |
| Shares purchased | | | | (8.8) | (462.5) | | | | (462.5) | |
| Stock compensation plans (includes income tax benefits of \$16.7) | | | 21.4 | 1.9 | 68.1 | | | | 89.5 | |
| Unearned compensation related to restricted stock unit awards | | | (69.7) | | | | | | (69.7) | |
| Earned compensation | | | 43.8 | | | | | | 43.8 | |
| Decrease in redemption value of redeemable interest | | | 10.2 | | | | | | 10.2 | (10.2) |
| Addition of noncontrolling interest | | | | | | | | 20.7 | 20.7 | |
| Distributions to noncontrolling and redeemable interest holders | | | | | | | | (0.8) | (0.8) | |
| Balance as of Aug. 24, 2014 | 754.6 | \$ 75.5 | \$ 1,237.5 | (149.2) | \$ (5,613.8) | \$ 11,878.0 | \$ (1,374.9) | \$ 480.5 | \$ 6,682.8 | \$ 959.1 |

See accompanying notes to consolidated financial statements.

Table of Contents**Consolidated Statements of Cash Flows**

GENERAL MILLS, INC. AND SUBSIDIARIES

(Unaudited) (In Millions)

| | Quarter Ended | |
|--|--------------------------|--------------------------|
| | Aug. 24, 2014 | Aug. 25, 2013 |
| Cash Flows - Operating Activities | | |
| Net earnings, including earnings attributable to redeemable and noncontrolling interests | \$ 352.4 | \$ 468.1 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 150.3 | 151.0 |
| After-tax earnings from joint ventures | (26.0) | (24.1) |
| Distributions of earnings from joint ventures | 24.5 | 15.0 |
| Stock-based compensation | 45.6 | 41.3 |
| Deferred income taxes | 17.4 | 22.9 |
| Tax benefit on exercised options | (16.7) | (31.6) |
| Pension and other postretirement benefit plan contributions | (12.3) | (12.1) |
| Pension and other postretirement benefit plan costs | 23.1 | 30.8 |
| Restructuring, impairment, and other exit costs | 12.8 | (5.6) |
| Changes in current assets and liabilities, excluding the effects of acquisitions | (211.2) | (207.9) |
| Other, net | (30.5) | (66.7) |
| | | |
| Net cash provided by operating activities | 329.4 | 381.1 |
| | | |
| Cash Flows - Investing Activities | | |
| Purchases of land, buildings, and equipment | (148.6) | (123.8) |
| Acquisitions, net of cash acquired | (12.9) | |
| Investments in affiliates, net | (33.2) | 11.0 |
| Proceeds from disposal of land, buildings, and equipment | 0.3 | 3.0 |
| Other, net | (2.8) | (3.4) |
| | | |
| Net cash used by investing activities | (197.2) | (113.2) |
| | | |
| Cash Flows - Financing Activities | | |
| Change in notes payable | 631.9 | 985.9 |
| Issuance of long-term debt | 271.3 | |
| Payment of long-term debt | (393.4) | (719.9) |
| Proceeds from common stock issued on exercised options | 17.5 | 11.7 |
| Tax benefit on exercised options | 16.7 | 31.6 |
| Purchases of common stock for treasury | (438.8) | (298.2) |
| Dividends paid | (254.4) | (247.5) |
| Distributions to noncontrolling and redeemable interest holders | (0.8) | |
| Other, net | (3.1) | (0.9) |
| | | |
| Net cash used by financing activities | (153.1) | (237.3) |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | (5.2) | (13.1) |

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| | | |
|--|-------------------|------------|
| Increase (decrease) in cash and cash equivalents | (26.1) | 17.5 |
| Cash and cash equivalents - beginning of year | 867.3 | 741.4 |
| | | |
| Cash and cash equivalents - end of period | \$ 841.2 | \$ 758.9 |
| | | |
| Cash Flow from Changes in Current Assets and Liabilities, excluding the effects of acquisitions: | | |
| Receivables | \$ (145.1) | \$ (198.5) |
| Inventories | (237.2) | (241.6) |
| Prepaid expenses and other current assets | 58.1 | 27.6 |
| Accounts payable | 42.4 | 47.1 |
| Other current liabilities | 70.6 | 157.5 |
| | | |
| Changes in current assets and liabilities | \$ (211.2) | \$ (207.9) |

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 ended August 24, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending May 31, 2015.

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 25, 2014. 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) Divestiture

There were no divestitures in the first quarter of fiscal 2015.

During the fourth quarter of fiscal 2014, we sold certain grain elevators in our U.S. Retail segment for \$121.6 million in cash, subject to a working capital adjustment, and recorded a pre-tax gain of \$65.5 million.

(3) Restructuring, Impairment, and Other Exit Costs

Restructuring, impairment, and other exit costs were as follows:

| In Millions | Quarter Ended | |
|--|---------------|---------------|
| | Aug. 24, 2014 | Aug. 25, 2013 |
| Combination of certain operational facilities | \$ 14.0 | \$ |
| Charges associated with restructuring actions previously announced | | 2.8 |
| Total | \$ 14.0 | \$ 2.8 |

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. Approximately 240 positions will be affected by these actions. We expect to incur approximately \$15.0 million of net expenses relating to these actions and we recorded \$14.0 million of expense in the first quarter of fiscal 2015, including \$13.1 million of severance and \$0.9 million of asset write offs and other costs. We expect these actions to be completed in fiscal 2016.

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

| In Millions | Severance | Total |
|---|----------------|----------------|
| Reserve balance as of May 25, 2014 | \$ 3.5 | \$ 3.5 |
| Fiscal 2015 charges, including foreign currency translation | 13.9 | 13.9 |
| Utilized in fiscal 2015 | (1.2) | (1.2) |
| Reserve balance as of Aug. 24, 2014 | \$ 16.2 | \$ 16.2 |

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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.

(4) Goodwill and Other Intangible Assets

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

| In Millions | Aug. 24, 2014 | May 25, 2014 |
|--|--------------------------|-------------------------|
| Goodwill | \$ 8,608.1 | \$ 8,650.5 |
| Other intangible assets: | | |
| Intangible assets not subject to amortization: | | |
| Brands and other indefinite-lived intangibles | 4,478.6 | 4,504.1 |
| Intangible assets subject to amortization: | | |
| Franchise agreements, customer relationships, and other finite-lived intangibles | 615.3 | 630.7 |
| Less accumulated amortization | (126.0) | (120.5) |
| Intangible assets subject to amortization, net | 489.3 | 510.2 |
| Other intangible assets | 4,967.9 | 5,014.3 |
| Total | \$ 13,576.0 | \$ 13,664.8 |

Based on the carrying value of finite-lived intangible assets as of August 24, 2014, annual amortization expense for each of the next five fiscal years is estimated to be approximately \$30 million.

The changes in the carrying amount of goodwill during fiscal 2015 were as follows:

| In Millions | U.S. Retail | International | Convenience Stores and Foodservice | Joint Ventures | Total |
|--|--------------------|----------------------|---|---------------------------|-------------------|
| Balance as of May 25, 2014 | \$ 5,829.2 | \$ 1,402.0 | \$ 921.1 | \$ 498.2 | \$ 8,650.5 |
| Other activity, primarily foreign currency translation | | (28.2) | | (14.2) | (42.4) |
| Balance as of Aug. 24, 2014 | \$ 5,829.2 | \$ 1,373.8 | \$ 921.1 | \$ 484.0 | \$ 8,608.1 |

We performed our fiscal 2014 impairment assessment as of November 25, 2013, and determined there was no impairment of goodwill for any of our reporting units as their related fair values were substantially in excess of their carrying values. Our Europe and Yoplait U.S. reporting units have experienced declining business performance. While these reporting units had significant coverage as of the assessment date, we will continue to monitor these businesses.

The changes in the carrying amount of other intangible assets during fiscal 2015 were as follows:

| In Millions | U.S. Retail | International | Joint Ventures | Total |
|----------------------------|--------------------|----------------------|---------------------------|--------------|
| Balance as of May 25, 2014 | \$ 3,307.5 | \$ 1,641.8 | \$ 65.0 | \$ 5,014.3 |

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| | | | | |
|---|-------------------|-------------------|----------------|-------------------|
| Amortization and foreign currency translation | (1.2) | (45.2) | | (46.4) |
| Balance as of Aug. 24, 2014 | \$ 3,306.3 | \$ 1,596.6 | \$ 65.0 | \$ 4,967.9 |

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We performed our fiscal 2014 impairment assessment as of November 25, 2013. As of our assessment date, there was no impairment of any of our indefinite-lived intangible assets as their related fair values were substantially in excess of the carrying values, except for the *Uncle Toby's* brand, which had a fair value 8 percent greater than its carrying value of \$63.0 million. In addition, our *Mountain High* brand had a fair value 23 percent greater than its carrying value of \$35.0 million. We will continue to monitor these businesses.

(5) Inventories

The components of inventories were as follows:

| In Millions | Aug. 24, 2014 | May 25, 2014 |
|-------------------------------|--------------------------|-------------------------|
| Raw materials and packaging | \$ 462.0 | \$ 419.0 |
| Finished goods | 1,484.2 | 1,260.2 |
| Grain | 111.0 | 97.1 |
| Excess of FIFO over LIFO cost | (233.9) | (216.9) |
| Total | \$ 1,823.3 | \$ 1,559.4 |

(6) Financial Instruments, Risk Management Activities, and Fair Values

Financial Instruments. The carrying values of cash and cash equivalents, receivables, accounts payable, other current liabilities, and notes payable approximate fair value. Marketable securities are carried at fair value. As of August 24, 2014, and May 25, 2014, a comparison of cost and market values of our marketable debt and equity securities is as follows:

| In Millions | Cost | | Market Value | | Gross Gains | | Gross Losses | |
|---------------------|--------------------------|-------------------------|--------------------------|-------------------------|--------------------------|-------------------------|--------------------------|-------------------------|
| | Aug. 24, 2014 | May 25, 2014 | Aug. 24, 2014 | May 25, 2014 | Aug. 24, 2014 | May 25, 2014 | Aug. 24, 2014 | May 25, 2014 |
| Available-for-sale: | | | | | | | | |
| Debt securities | \$ 255.6 | \$ 318.6 | \$ 255.8 | \$ 318.8 | \$ 0.2 | \$ 0.2 | \$ | \$ |
| Equity securities | 1.8 | 1.8 | 7.3 | 7.2 | 5.5 | 5.4 | | |
| Total | \$ 257.4 | \$ 320.4 | \$ 263.1 | \$ 326.0 | \$ 5.7 | \$ 5.6 | \$ | \$ |

For the first quarter of fiscal 2015, there were no gains or losses from sales of available-for-sale marketable securities. Gains and losses are determined by specific identification. Classification of marketable securities as current or noncurrent is dependent upon our intended holding period, the security's maturity date, or both. The aggregate unrealized gains and losses on available-for-sale securities, net of tax effects, are classified in accumulated other comprehensive loss (AOCI) within stockholders' equity. Scheduled maturities of our marketable securities are as follows:

| In Millions | Available-for-Sale Market | |
|------------------------|--------------------------------------|--------------|
| | Cost | Value |
| Under 1 year (current) | \$ 254.4 | \$ 254.6 |
| From 1 to 3 years | 1.1 | 1.1 |
| From 4 to 7 years | 0.1 | 0.1 |
| Equity securities | 1.8 | 7.3 |
| Total | \$ 257.4 | \$ 263.1 |

Marketable securities with a market value of \$2.3 million as of August 24, 2014, were pledged as collateral for certain derivative contracts. As of August 24, 2014, \$49.1 million of certain accounts receivable were pledged as collateral against a foreign uncommitted line of credit.

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The fair values and carrying amounts of long-term debt, including the current portion, were \$8,035.6 million and \$7,524.5 million, respectively, as of August 24, 2014. 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.

Risk Management Activities. As a part of our ongoing operations, we are exposed to market risks such as changes in interest and foreign currency exchange rates and commodity and equity prices. To manage these risks, we may enter into various derivative transactions (e.g., futures, options, and swaps) pursuant to our established policies.

Commodity Price Risk. 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 nonetheless 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.

Unallocated corporate items for the quarter ended August 24, 2014, and August 25, 2013, included:

| In Millions | Quarter Ended | |
|--|------------------|------------------|
| | Aug. 24, 2014 | Aug. 25, 2013 |
| Net loss on certain mark-to-market valuation of commodity positions | \$ (41.4) | \$ (12.3) |
| Net loss (gain) on commodity positions reclassified from unallocated corporate items to segment operating profit | (4.8) | 15.8 |
| Net mark-to-market revaluation of certain grain inventories | (3.0) | (4.3) |
| Net mark-to-market valuation of certain commodity positions recognized in unallocated corporate items | \$ (49.2) | \$ (0.8) |

As of August 24, 2014, the net notional value of commodity derivatives was \$365.5 million, of which \$158.6 million related to energy inputs and \$206.9 million related to agricultural inputs. These contracts relate to inputs that generally will be utilized within the next 12 months.

Interest Rate Risk. We are exposed to interest rate volatility with regard to future issuances of fixed-rate debt, and existing and future issuances of floating-rate debt. Primary exposures include U.S. Treasury rates, LIBOR, Euribor, and commercial paper rates in the United States and Europe. We use interest rate swaps, forward-starting interest rate swaps, and treasury locks to hedge our exposure to interest rate changes, to reduce the volatility of our financing costs, and to achieve a desired proportion of fixed versus floating-rate debt, based on current and projected market conditions. Generally under these swaps, we agree with a counterparty to exchange the difference between fixed-rate and floating-rate interest amounts based on an agreed upon notional principal amount.

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Floating Interest Rate Exposures Floating-to-fixed interest rate swaps are accounted for as cash flow hedges, as are all hedges of forecasted issuances of debt. Effectiveness is assessed based on either the perfectly effective hypothetical derivative method or changes in the present value of interest payments on the underlying debt. Effective gains and losses deferred to AOCI are reclassified into earnings over the life of the associated debt. Ineffective gains and losses are recorded as net interest. The amount of hedge ineffectiveness was less than \$1 million for the period ended August 24, 2014.

Fixed Interest Rate Exposures Fixed-to-floating interest rate swaps are accounted for as fair value hedges with effectiveness assessed based on changes in the fair value of the underlying debt and derivatives, using incremental borrowing rates currently available on loans with similar terms and maturities. Ineffective gains and losses on these derivatives and the underlying hedged items are recorded as net interest. The amount of hedge ineffectiveness was less than \$1 million for the period ended August 24, 2014.

In advance of a planned debt financing, we entered into \$250.0 million of treasury locks with an average fixed rate of 1.99 percent. All of these treasury locks were cash settled for \$17.9 million during the third quarter of fiscal 2014, coincident with the issuance of our \$500.0 million 10-year fixed-rate notes.

During the third quarter of fiscal 2013, we entered into swaps to convert \$250.0 million of 0.875 percent fixed-rate notes due January 29, 2016, to floating rates.

As of August 24, 2014, the pre-tax amount of cash-settled interest rate hedge gain or loss remaining in AOCI which will be reclassified to earnings over the remaining term of the related underlying debt is as follows:

| In Millions | Gain/(Loss) |
|-----------------------------------|--------------------|
| 5.2% notes due March 17, 2015 | \$ (0.3) |
| 5.7% notes due February 15, 2017 | (5.5) |
| 5.65% notes due February 15, 2019 | 2.2 |
| 3.15% notes due December 15, 2021 | (72.4) |
| 3.65% notes due February 15, 2024 | 16.9 |
| 5.4% notes due June 15, 2040 | (14.4) |
| 4.15% notes due February 15, 2043 | 11.2 |
| Net pre-tax hedge loss in AOCI | \$ (62.3) |

The following table summarizes the notional amounts and weighted-average interest rates of our interest rate derivatives. Average floating rates are based on rates as of the end of the reporting period.

| In Millions | Aug. 24, 2014 | May 25, 2014 |
|--------------------------------------|--------------------------|-------------------------|
| Pay-floating swaps - notional amount | \$ 250.0 | \$ 250.0 |
| Average receive rate | 0.9% | 0.9% |
| Average pay rate | 0.5% | 0.5% |

These swap contracts mature in fiscal 2016.

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The following tables reconcile the net fair values of assets and liabilities subject to offsetting arrangements that are recorded in the Consolidated Balance Sheets to the net fair values that could be reported in the Consolidated Balance Sheets:

| In Millions | Aug. 24, 2014 | | | | | | | | | | | |
|----------------------------|---|-----------|---------------------------|---------------------|------------|---------------|---|-----------|--------------------------------|---------------------|------------|------------------|
| | Assets | | | | | | Liabilities | | | | | |
| | Gross Amounts Not Offset in the Balance Sheet (e) | | | | | | Gross Amounts Not Offset in the Balance Sheet (e) | | | | | |
| | Gross Liabilities Offset in the Balance Sheet (a) | | Net Amounts of Assets (b) | | Cash | Net | Gross Assets Offset in the Balance Sheet (a) | | Net Amounts of Liabilities (b) | | Cash | Net |
| Assets | | | Financial Instruments | Collateral Received | Amount (c) | Liabilities | | | Financial Instruments | Collateral Received | Amount (d) | |
| Commodity contracts | \$ 4.8 | \$ | \$ 4.8 | \$ (2.6) | \$ | \$ 2.2 | \$ (16.2) | \$ | \$ (16.2) | \$ 2.6 | \$ | \$ (13.6) |
| Interest rate contracts | 0.3 | | 0.3 | | | 0.3 | | | | | | |
| Foreign exchange contracts | 9.5 | | 9.5 | (6.9) | | 2.6 | (16.1) | | (16.1) | 6.9 | | (9.2) |
| Total | \$ 14.6 | \$ | \$ 14.6 | \$ (9.5) | \$ | \$ 5.1 | \$ (32.3) | \$ | \$ (32.3) | \$ 9.5 | \$ | \$ (22.8) |

- (a) Includes related collateral offset in the Consolidated Balance Sheets.
- (b) Net fair value as recorded in the Consolidated Balance Sheets.
- (c) Fair value of assets that could be reported net in the Consolidated Balance Sheets.
- (d) Fair value of liabilities that could be reported net in the Consolidated Balance Sheets.
- (e) Fair value of assets and liabilities reported on a gross basis in the Consolidated Balance Sheets.

| In Millions | May 25, 2014 | | | | | | | | | | | |
|-------------------------|---|----|---------------------------|---------------------|------------|-------------|---|----|--------------------------------|---------------------|------------|----------|
| | Assets | | | | | | Liabilities | | | | | |
| | Gross Amounts Not Offset in the Balance Sheet (e) | | | | | | Gross Amounts Not Offset in the Balance Sheet (e) | | | | | |
| | Gross Liabilities Offset in the Balance Sheet (a) | | Net Amounts of Assets (b) | | Cash | Net | Gross Assets Offset in the Balance Sheet (a) | | Net Amounts of Liabilities (b) | | Cash | Net |
| Assets | | | Financial Instruments | Collateral Received | Amount (c) | Liabilities | | | Financial Instruments | Collateral Received | Amount (d) | |
| Commodity contracts | \$ 19.1 | \$ | \$ 19.1 | \$ (3.4) | \$ | \$ 15.7 | \$ (4.0) | \$ | \$ (4.0) | \$ 3.4 | \$ | \$ (0.6) |
| Interest rate contracts | 0.7 | | 0.7 | | | 0.7 | | | | | | |
| | 10.5 | | 10.5 | (8.0) | | 2.5 | (19.1) | | (19.1) | 8.0 | | (11.1) |

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Foreign exchange
contracts

| | | | | | | | | | | | | |
|--------------|----------------|-----------|----------------|------------------|-----------|----------------|------------------|-----------|------------------|----------------|-----------|------------------|
| Total | \$ 30.3 | \$ | \$ 30.3 | \$ (11.4) | \$ | \$ 18.9 | \$ (23.1) | \$ | \$ (23.1) | \$ 11.4 | \$ | \$ (11.7) |
|--------------|----------------|-----------|----------------|------------------|-----------|----------------|------------------|-----------|------------------|----------------|-----------|------------------|

- (a) Includes related collateral offset in the Consolidated Balance Sheets.
- (b) Net fair value as recorded in the Consolidated Balance Sheets.
- (c) Fair value of assets that could be reported net in the Consolidated Balance Sheets.
- (d) Fair value of liabilities that could be reported net in the Consolidated Balance Sheets.
- (e) Fair value of assets and liabilities reported on a gross basis in the Consolidated Balance Sheets.

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Foreign Exchange Risk. Foreign currency fluctuations affect our net investments in foreign subsidiaries and foreign currency cash flows related to third party purchases, intercompany loans, product shipments, and foreign-denominated commercial paper. We are also exposed to the translation of foreign currency earnings to the U.S. dollar. Our principal exposures are to the Australian dollar, Brazilian real, British pound sterling, Canadian dollar, Chinese renminbi, euro, Japanese yen, Mexican peso, and Swiss franc. We mainly use foreign currency forward contracts to selectively hedge our foreign currency cash flow exposures. We also generally swap our foreign-denominated commercial paper borrowings and nonfunctional currency intercompany loans back to U.S. dollars or the functional currency of the entity with foreign exchange exposure; the gains or losses on these derivatives offset the foreign currency revaluation gains or losses recorded in earnings on the associated borrowings. We generally do not hedge more than 18 months forward.

As of August 24, 2014, the net notional value of foreign exchange derivatives was \$1.2 billion. The amount of hedge ineffectiveness was less than \$1 million for the period ended August 24, 2014.

We also have many net investments in foreign subsidiaries that are denominated in euros. We previously hedged a portion of these net investments by issuing euro-denominated commercial paper and foreign exchange forward contracts. During the second quarter of fiscal 2014, we entered into a net investment hedge for a portion of our net investment in foreign operations denominated in euros by issuing 500.0 million of euro-denominated bonds. As of August 24, 2014, we had deferred net foreign currency losses of \$84.9 million in AOCI associated with net investment hedging activity.

Venezuela is a highly inflationary economy and as such, we remeasure the value of the assets and liabilities of our Venezuelan subsidiary based on the exchange rate at which we expect to remit dividends in U.S. dollars. In February 2014, the Venezuelan government established a new foreign exchange market mechanism (SICAD 2) and has indicated that this will be the market through which U.S. dollars will be obtained for the remittance of dividends. This market has significantly higher foreign exchange rates than those available through the other foreign exchange mechanisms. In the first quarter of fiscal 2015, we recorded an immaterial impact in unallocated corporate items resulting from the remeasurement of assets and liabilities of our Venezuelan subsidiary at the SICAD 2 rate. We have been able to access U.S. dollars through the SICAD 2 market. Our Venezuela operations represent less than 1 percent of our consolidated assets, liabilities, net sales, and segment operating profit. At August 24, 2014, we had \$3.7 million of non-U.S. dollar cash balances in Venezuela.

Equity Instruments. Equity price movements affect our compensation expense as certain investments made by our employees in our deferred compensation plan are revalued. We use equity swaps to manage this risk. As of August 24, 2014, the net notional value of our equity swaps was \$117.1 million. These swap contracts mature in fiscal 2015.

Table of Contents**Fair Value Measurements and Financial Statement Presentation**

The fair values of our assets, liabilities, and derivative positions recorded at fair value and their respective levels in the fair value hierarchy as of August 24, 2014 and May 25, 2014, were as follows:

| In Millions | Aug. 24, 2014 | | | | | | | |
|--|-----------------------|----------|---------|----------|----------------------------|-----------|---------|-----------|
| | Fair Values of Assets | | | | Fair Values of Liabilities | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Derivatives designated as hedging instruments: | | | | | | | | |
| Interest rate contracts (a) (b) | \$ | \$ 0.3 | \$ | \$ 0.3 | \$ | \$ | \$ | \$ |
| Foreign exchange contracts (c) (d) | | 8.1 | | 8.1 | | (10.4) | | (10.4) |
| Total | | 8.4 | | 8.4 | | (10.4) | | (10.4) |
| Derivatives not designated as hedging instruments: | | | | | | | | |
| Foreign exchange contracts (c) (d) | | 1.4 | | 1.4 | | (5.7) | | (5.7) |
| Equity contracts (a) (e) | | 0.1 | | 0.1 | | | | |
| Commodity contracts (c) (e) | 1.6 | 3.2 | | 4.8 | | (16.2) | | (16.2) |
| Grain contracts (c) (e) | | 3.6 | | 3.6 | | (11.3) | | (11.3) |
| Total | 1.6 | 8.3 | | 9.9 | | (33.2) | | (33.2) |
| Other assets and liabilities reported at fair value: | | | | | | | | |
| Marketable investments (a) (f) | 7.3 | 255.8 | | 263.1 | | | | |
| Total | 7.3 | 255.8 | | 263.1 | | | | |
| Total assets, liabilities, and derivative positions recorded at fair value | \$ 8.9 | \$ 272.5 | \$ | \$ 281.4 | \$ | \$ (43.6) | \$ | \$ (43.6) |

- (a) These contracts and investments are recorded as prepaid expenses and other current assets, other assets, other current liabilities or other liabilities, as appropriate, based on whether in a gain or loss position. Certain marketable investments are recorded as cash and cash equivalents.
- (b) Based on LIBOR and swap rates.
- (c) These contracts are recorded as prepaid expenses and other current assets or as other current liabilities, as appropriate, based on whether in a gain or loss position.
- (d) Based on observable market transactions of spot currency rates and forward currency prices.
- (e) Based on prices of futures exchanges and recently reported transactions in the marketplace.
- (f) Based on prices of common stock and bond matrix pricing.

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| In Millions | May 25, 2014 | | | | | | | |
|--|-----------------------|----------|---------|----------|----------------------------|-----------|---------|-----------|
| | Fair Values of Assets | | | | Fair Values of Liabilities | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Derivatives designated as hedging instruments: | | | | | | | | |
| Interest rate contracts (a) (b) | \$ | \$ 0.7 | \$ | \$ 0.7 | \$ | \$ | \$ | \$ |
| Foreign exchange contracts (c) (d) | | 9.9 | | 9.9 | | (12.6) | | (12.6) |
| Total | | 10.6 | | 10.6 | | (12.6) | | (12.6) |
| Derivatives not designated as hedging instruments: | | | | | | | | |
| Foreign exchange contracts (c) (d) | | 0.6 | | 0.6 | | (6.5) | | (6.5) |
| Commodity contracts (c) (e) | 11.1 | 8.0 | | 19.1 | | (4.0) | | (4.0) |
| Grain contracts (c) (e) | | 7.5 | | 7.5 | | (4.9) | | (4.9) |
| Total | 11.1 | 16.1 | | 27.2 | | (15.4) | | (15.4) |
| Other assets and liabilities reported at fair value: | | | | | | | | |
| Marketable investments (a) (f) | 7.2 | 318.8 | | 326.0 | | | | |
| Total | 7.2 | 318.8 | | 326.0 | | | | |
| Total assets, liabilities, and derivative positions recorded at fair value | \$ 18.3 | \$ 345.5 | \$ | \$ 363.8 | \$ | \$ (28.0) | \$ | \$ (28.0) |

- (a) These contracts and investments are recorded as prepaid expenses and other current assets, other assets, other current liabilities or other liabilities, as appropriate, based on whether in a gain or loss position. Certain marketable investments are recorded as cash and cash equivalents.
- (b) Based on LIBOR and swap rates.
- (c) These contracts are recorded as prepaid expenses and other current assets or as other current liabilities, as appropriate, based on whether in a gain or loss position.
- (d) Based on observable market transactions of spot currency rates and forward currency prices.
- (e) Based on prices of futures exchanges and recently reported transactions in the marketplace.
- (f) Based on prices of common stock and bond matrix pricing.
We did not significantly change our valuation techniques from prior periods.

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Information related to our cash flow hedges, fair value hedges, and other derivatives not designated as hedging instruments for the three-month periods ended August 24, 2014 and August 25, 2013, were as follows:

| | Interest Rate Contracts | | Foreign Exchange Contracts | | Equity Contracts Quarter Ended | | Commodity Contracts | | Total | |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|--------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Quarter Ended Aug. 24, 2014 | Quarter Ended Aug. 25, 2013 | Quarter Ended Aug. 24, 2014 | Quarter Ended Aug. 25, 2013 | Quarter Ended Aug. 24, 2014 | Quarter Ended Aug. 25, 2013 | Quarter Ended Aug. 24, 2014 | Quarter Ended Aug. 25, 2013 | Quarter Ended Aug. 24, 2014 | Quarter Ended Aug. 25, 2013 |
| In Millions | | | | | | | | | | |
| Derivatives in Cash Flow Hedging Relationships: | | | | | | | | | | |
| Amount of gain (loss) recognized in other comprehensive income (OCI) (a) | \$ | \$ 14.4 | \$ (1.5) | \$ 3.7 | \$ | \$ | \$ | \$ | \$ (1.5) | \$ 18.1 |
| Amount of gain (loss) reclassified from AOCI into earnings (a) (b) | (2.6) | (3.0) | (1.7) | 5.1 | | | | | (4.3) | 2.1 |
| Amount of loss recognized in earnings (c) | | | | (0.2) | | | | | | (0.2) |
| Derivatives in Fair Value Hedging Relationships: | | | | | | | | | | |
| Amount of net loss recognized in earnings (d) | (0.3) | (1.2) | | | | | | | (0.3) | (1.2) |
| Derivatives Not Designated as Hedging Instruments: | | | | | | | | | | |
| Amount of gain (loss) recognized in earnings (d) | | | (1.4) | (5.1) | 4.1 | 0.5 | (41.4) | (12.3) | (38.7) | (16.9) |

(a) Effective portion.

(b) 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.

(c) Loss recognized in earnings is related to the ineffective portion of the hedging relationship, including SG&A expenses for foreign exchange contracts and interest, net for interest rate contracts. No amounts were reported as a result of being excluded from the assessment of hedge effectiveness.

(d) Gain (loss) recognized in earnings is reported in interest, net for interest rate contracts, in cost of sales for commodity contracts, and in SG&A expenses for equity contracts and foreign exchange contracts.

Amounts Recorded in Accumulated Other Comprehensive Loss. As of August 24, 2014, the after-tax amounts of unrealized gains and losses in AOCI related to hedge derivatives follows:

| In Millions | After-Tax Gain/(Loss) |
|---|------------------------------|
| Unrealized losses from interest rate cash flow hedges | \$ (37.8) |
| Unrealized gains from foreign currency cash flow hedges | 1.2 |
| After-tax loss in AOCI related to hedge derivatives | \$ (36.6) |

The net amount of pre-tax gains and losses in AOCI as of August 24, 2014, that we expect to be reclassified into net earnings within the next 12 months is \$7.8 million of loss.

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Credit-Risk-Related Contingent Features. Certain of our derivative instruments contain provisions that require us to maintain an investment grade credit rating on our debt from each of the major credit rating agencies. If our debt were to fall below investment grade, the counterparties to the derivative instruments could request full collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on August 24, 2014, was \$20.7 million. We would be required to post this amount of collateral to the counterparties if the contingent features were triggered.

Credit Risk. We enter into interest rate, foreign exchange, commodity, and equity derivatives primarily with a diversified group of highly rated counterparties. We continually monitor our positions and the credit ratings of the counterparties involved and, by policy, limit the amount of credit exposure to any one party. These transactions may expose us to potential losses due to the risk of nonperformance by these counterparties; however, we have not incurred a material loss. We also enter into commodity futures transactions through various regulated exchanges.

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The amount of loss due to the credit risk of the counterparties, should the counterparties fail to perform according to the terms of the contracts, is \$6.5 million against which we do not hold any collateral. Under the terms of master swap agreements, some of our transactions require collateral or other security to support financial instruments subject to threshold levels of exposure and counterparty credit risk. Collateral assets are either cash or U.S. Treasury instruments and are held in a trust account that we may access if the counterparty defaults.

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 August 24, 2014, \$351.3 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:

| In Millions | Aug. 24, 2014 | May 25, 2014 |
|------------------------|--------------------------|-------------------------|
| U.S. commercial paper | \$ 1,519.9 | \$ 1,007.6 |
| Financial institutions | 275.5 | 104.1 |
| Total | \$ 1,795.4 | \$ 1,111.7 |

To ensure availability of funds, we maintain bank credit lines sufficient to cover our outstanding short-term borrowings. 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.

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

The following table details the fee-paid committed and uncommitted credit lines we had available as of August 24, 2014:

| In Billions | Facility Amount | Borrowed Amount |
|---|----------------------------|----------------------------|
| Credit facility expiring: | | |
| April 2017 | \$ 1.7 | \$ |
| May 2019 | 1.0 | |
| June 2019 | 0.3 | 0.1 |
| Total committed credit facilities | 3.0 | 0.1 |
| Uncommitted credit facilities | 0.4 | 0.2 |
| Total committed and uncommitted credit facilities | \$ 3.4 | \$ 0.3 |

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 August 24, 2014.

Long-Term Debt

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. 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.

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In May 2014, we repaid \$400.0 million of floating-rate notes and \$300.0 million of 1.55 percent fixed-rate notes.

In January 2014, we issued \$500.0 million aggregate principal amount of 3.65 percent fixed-rate notes due February 15, 2024 and \$250.0 million aggregate principal amount of floating-rate notes due January 28, 2016. Interest on the fixed-rate notes is payable semi-annually in arrears. The fixed-rate notes may be redeemed in whole, or in part, at our option at any time prior to November 15, 2023 for a specified make whole amount and any time on or after that date at par. The floating-rate notes bear interest equal to three-month LIBOR plus 20 basis points, subject to quarterly reset. Interest on the floating-rate notes is payable quarterly in arrears. The floating-rate notes are not redeemable prior to maturity. The fixed-rate and floating-rate 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 November 2013, we issued 500.0 million aggregate principal amount of 2.1 percent fixed-rate notes due November 16, 2020. Interest on the notes is payable annually in arrears. The notes may be redeemed in whole, or in part, at our option at any time prior to August 16, 2020 for a specified make whole amount and any time on or after that date at par. 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 January 2013, we issued \$250.0 million aggregate principal amount of floating-rate notes due January 29, 2016. In October 2013, we issued an additional \$250.0 million aggregate principal amount of these notes. The notes bear interest equal to three-month LIBOR plus 30 basis points, subject to quarterly reset. Interest on the notes is payable quarterly in arrears. The notes are not redeemable prior to maturity. These notes are senior unsecured obligations that include a change of control repurchase provision. The net proceeds were used to reduce our commercial paper borrowings.

In August 2013, we repaid \$700.0 million of 5.25 percent fixed-rate notes.

Certain of our long-term debt agreements contain restrictive covenants. As of August 24, 2014, we were in compliance with all of these covenants.

(8) Redeemable and Noncontrolling Interests

We have a 51 percent controlling interest in Yoplait S.A.S. and a 50 percent interest in Yoplait Marques S.A.S. Sodiaal International (Sodiaal) holds the remaining interests in each of the entities. On the acquisition date in fiscal 2012, we recorded the \$904.4 million fair value of Sodiaal's 49 percent euro-denominated interest in Yoplait S.A.S. 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 S.A.S. pays dividends annually if it meets certain financial metrics set forth in its shareholders' agreement. As of August 24, 2014, the redemption value of the euro-denominated redeemable interest was \$959.1 million.

In addition, a subsidiary of Yoplait S.A.S. has entered into an exclusive milk supply agreement for its European operations with Sodiaal through July 1, 2021. Net purchases totaled \$74.2 million for the quarter ended August 24, 2014, and \$77.3 million for the quarter ended August 25, 2013.

On the acquisition date in fiscal 2012, we recorded the \$263.8 million fair value of Sodiaal's 50 percent euro-denominated interest in Yoplait Marques S.A.S. as a noncontrolling interest on our Consolidated Balance Sheets. Yoplait Marques S.A.S. earns a royalty stream through a licensing agreement with Yoplait S.A.S. for the rights to *Yoplait* and related trademarks. Yoplait Marques S.A.S. pays dividends annually based on its available cash as of its fiscal year end.

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During the third quarter of fiscal 2014, we formed Libertè Marques, S.a.r.l. and sold a 50 percent euro-denominated interest in the entity to Sodiaal in exchange for \$17.6 million. We recorded Sodiaal's 50 percent interest in the entity as a noncontrolling interest on our Consolidated Balance Sheets. Libertè Marques, S.a.r.l. earns a royalty stream through licensing agreements with certain Yoplait group companies for the rights to *Libertè* and related trademarks. Libertè Marques, S.a.r.l. pays dividends annually based on its available cash as of its fiscal year end.

The third-party holder of the General Mills Cereals, LLC (GMC) Class A Interests receives quarterly preferred distributions from available net income based on the application of a floating preferred return rate, currently equal to the sum of three-month LIBOR plus 110 basis points, 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.

Our noncontrolling interests contain restrictive covenants. As of August 24, 2014, we were in compliance with all of these covenants.

(9) Stockholders' Equity

During the fourth quarter of fiscal 2013, we entered into an accelerated share repurchase (ASR) agreement with an unrelated third party financial institution to repurchase an aggregate of \$300.0 million of our outstanding common stock. Under the ASR agreement, we paid \$300.0 million to the financial institution and received 5.5 million shares of common stock with a fair value of \$270.0 million during the fourth quarter of fiscal 2013. We received an additional 0.6 million shares of common stock upon completion of the ASR agreement during the first quarter of fiscal 2014. As of May 26, 2013, we recorded this transaction as an increase in treasury stock of \$270.0 million, and recorded the remaining \$30.0 million as a decrease to additional paid in capital on our Consolidated Balance Sheets. Upon completion of the ASR agreement in the first quarter of fiscal 2014, we reclassified the \$30.0 million to treasury stock from additional paid-in capital on our Consolidated Balance Sheets.

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

| In Millions | Quarter Ended Aug. 24, 2014 | | | | | Quarter Ended Aug. 25, 2013 | | | | |
|--|--------------------------------|-----------|----------------|------------|-----------|--------------------------------|-----------|----------------|------------|---------|
| | General Mills | | Noncontrolling | Redeemable | | General Mills | | Noncontrolling | Redeemable | |
| | Pretax | Tax | Interests | Interest | | Pretax | Tax | Interests | Interest | |
| | | Net | Net | Net | | | Net | Net | Net | |
| Net earnings, including earnings attributable to redeemable and noncontrolling interests | | | \$ 345.2 | \$ 1.6 | \$ 5.6 | | | \$ 459.3 | \$ 2.1 | \$ 6.7 |
| Other comprehensive income (loss): | | | | | | | | | | |
| Foreign currency translation | \$ (60.4) | \$ | (60.4) | (11.6) | (20.5) | \$ (121.7) | \$ | (121.7) | 12.0 | 23.1 |
| Other fair value changes: | | | | | | | | | | |
| Securities | 0.2 | (0.1) | 0.1 | | | 0.3 | (0.1) | 0.2 | | |
| Hedge derivatives | (0.8) | 0.2 | (0.6) | | (0.6) | 17.8 | (6.0) | 11.8 | | 0.3 |
| Reclassification to earnings: | | | | | | | | | | |
| Hedge derivatives (a) | 3.4 | (0.6) | 2.8 | | 0.7 | (1.8) | | (1.8) | | (0.2) |
| Amortization of losses and prior service costs (b) | 38.9 | (15.4) | 23.5 | | | 42.6 | (16.2) | 26.4 | | |
| Other comprehensive income (loss): | \$ (18.7) | \$ (15.9) | (34.6) | (11.6) | (20.4) | \$ (62.8) | \$ (22.3) | (85.1) | 12.0 | 23.2 |
| Total comprehensive income (loss) | | | \$ 310.6 | \$ (10.0) | \$ (14.8) | | | \$ 374.2 | \$ 14.1 | \$ 29.9 |

(a) 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.
Except for reclassifications to earnings, changes in other comprehensive income (loss) are primarily non-cash items.

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

| In Millions | Aug. 24, 2014 | May 25, 2014 |
|---|------------------|-----------------|
| Foreign currency translation adjustments | \$ 130.9 | \$ 191.3 |
| Unrealized gain (loss) from: | | |
| Securities | 3.0 | 2.9 |
| Hedge derivatives | (36.6) | (38.8) |
| Pension, other postretirement, and postemployment benefits: | | |
| Net actuarial loss | (1,447.0) | (1,469.2) |
| Prior service costs | (25.2) | (26.5) |
| Accumulated other comprehensive loss | \$ (1,374.9) | \$ (1,340.3) |

Table of Contents**(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 25, 2014.

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

| In Millions | Quarter Ended | |
|--|--------------------------|--------------------------|
| | Aug. 24, 2014 | Aug. 25, 2013 |
| Compensation expense related to stock-based payments | \$ 45.6 | \$ 41.3 |

As of August 24, 2014, unrecognized compensation expense related to non-vested stock options, restricted stock, and performance award units was \$160.1 million. This expense will be recognized over 25 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:

| In Millions | Quarter Ended | |
|--------------------------------------|--------------------------|--------------------------|
| | Aug. 24, 2014 | Aug. 25, 2013 |
| Net cash proceeds | \$ 17.5 | \$ 11.7 |
| Intrinsic value of options exercised | \$ 18.3 | \$ 50.3 |

We estimate the fair value of each 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 25, 2014.

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

| | Quarter Ended | |
|--|--------------------------|--------------------------|
| | Aug. 24, 2014 | Aug. 25, 2013 |
| Estimated fair values of stock options granted | \$ 7.22 | \$ 6.03 |
| Assumptions: | | |
| Risk-free interest rate | 2.6% | 2.6% |
| Expected term | 8.5 years | 9.0 years |
| Expected volatility | 17.5% | 17.4% |
| Dividend yield | 3.0% | 3.1% |

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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 25, 2014 | 44,169.0 | \$ 32.10 | | |
| Granted | 2,253.1 | 53.70 | | |
| Exercised | (713.6) | 27.87 | | |
| Forfeited or expired | (17.3) | 43.00 | | |
| Outstanding as of Aug. 24, 2014 | 45,691.2 | \$ 33.23 | 4.79 | \$ 892.3 |
| Exercisable as of Aug. 24, 2014 | 33,543.3 | \$ 29.67 | 3.56 | \$ 772.8 |

Information on restricted stock and performance award unit activity follows:

| | Equity Classified | | Liability Classified | | Weighted- Average Grant-Date Fair Value |
|---------------------------------------|---|--|---|--|--|
| | 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 25, 2014 | 7,893.7 | \$ 40.81 | 249.5 | \$ 25.67 | \$ 36.52 |
| Granted | 1,424.3 | 53.72 | 49.0 | 53.70 | |
| Vested | (1,771.2) | 37.53 | (53.6) | 31.72 | 37.40 |
| Forfeited | (71.4) | 44.08 | (3.6) | 42.97 | 37.40 |
| Non-vested as of Aug. 24, 2014 | 7,475.4 | \$ 43.49 | 241.3 | \$ 43.04 | \$ |

The total grant-date fair value of restricted stock unit awards that vested in the quarter ended August 24, 2014 was \$98.9 million, and restricted stock units with a grant-date fair value of \$91.3 million vested in the quarter ended August 25, 2013.

Table of Contents**(11) Earnings Per Share**

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

| In Millions, Except per Share Data | Quarter Ended | |
|---|--------------------------|--------------------------|
| | Aug. 24, 2014 | Aug. 25, 2013 |
| Net earnings attributable to General Mills | \$ 345.2 | \$ 459.3 |
| Average number of common shares - basic EPS | 612.6 | 643.0 |
| Incremental share effect from: (a) | | |
| Stock options | 12.1 | 12.8 |
| Restricted stock, restricted stock units, and other | 4.4 | 4.5 |
| Average number of common shares - diluted EPS | 629.1 | 660.3 |
| Earnings per share - basic | \$ 0.56 | \$ 0.71 |
| Earnings per share - diluted | \$ 0.55 | \$ 0.70 |

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

| In Millions | Quarter Ended | |
|--|--------------------------|--------------------------|
| | Aug. 24, 2014 | Aug. 25, 2013 |
| Anti-dilutive stock options and restricted stock units | 1.5 | 1.4 |

(12) Share Repurchases

During the first quarter of fiscal 2015, we repurchased 8.8 million shares of common stock for an aggregate purchase price of \$462.5 million, which includes 0.4 million shares that did not settle until the second quarter of fiscal 2015 with an aggregate price of \$23.7 million. During the first quarter of fiscal 2014, we repurchased 6.5 million shares of common stock for an aggregate purchase price of \$327.3 million, including 0.6 million shares pursuant to the completion of an ASR agreement.

(13) Statements of Cash Flows

During the quarter ended August 24, 2014, we made net cash interest payments of \$119.0 million, compared to \$126.2 million in the same period last year. Also, in the quarter ended August 24, 2014, we made tax payments of \$60.5 million, compared to \$47.6 million in the same period last year.

Table of Contents**(14) Retirement and Postemployment Benefits**

Components of net pension, other postretirement, and postemployment expense were as follows:

| In Millions | Defined Benefit Pension Plans | | Other Postretirement Benefit Plans | | Postemployment Benefit Plans | |
|---|-------------------------------|---------------|------------------------------------|---------------|------------------------------|---------------|
| | Quarter Ended | | Quarter Ended | | Quarter Ended | |
| | Aug. 24, 2014 | Aug. 25, 2013 | Aug. 24, 2014 | Aug. 25, 2013 | Aug. 24, 2014 | Aug. 25, 2013 |
| Service cost | \$ 34.4 | \$ 33.2 | \$ 5.6 | \$ 5.9 | \$ 1.9 | \$ 1.9 |
| Interest cost | 62.5 | 59.8 | 11.8 | 12.6 | 1.1 | 1.0 |
| Expected return on plan assets | (119.3) | (113.8) | (10.0) | (8.7) | | |
| Amortization of losses | 35.4 | 37.5 | 1.2 | 3.8 | 0.2 | 0.2 |
| Amortization of prior service costs (credits) | 1.9 | 1.4 | (0.4) | (0.9) | 0.6 | 0.6 |
| Other adjustments | | | | | 3.1 | 2.5 |
| Net expense | \$ 14.9 | \$ 18.1 | \$ 8.2 | \$ 12.7 | \$ 6.9 | \$ 6.2 |

(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.

Beginning in the first quarter of fiscal 2015, we have changed how we assess operating segment performance to exclude the asset and liability remeasurement impact from hyperinflationary economies. This impact is now included in unallocated corporate items. All periods presented have been changed to conform to this presentation.

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, shelf stable and frozen vegetables, 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 granola bars, cereal, and soup.

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, and 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, 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 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 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.

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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.

Our operating segment results were as follows:

| In Millions | Quarter Ended | |
|---|--------------------------|--------------------------|
| | Aug. 24, 2014 | Aug. 25, 2013 |
| Net sales: | | |
| U.S. Retail | \$ 2,444.3 | \$ 2,584.1 |
| International | 1,351.1 | 1,320.8 |
| Convenience Stores and Foodservice | 473.0 | 467.8 |
| Total | \$ 4,268.4 | \$ 4,372.7 |
| Operating profit: | | |
| U.S. Retail | \$ 457.2 | \$ 611.9 |
| International | 146.0 | 125.6 |
| Convenience Stores and Foodservice | 87.3 | 74.1 |
| Total segment operating profit | 690.5 | 811.6 |
| Unallocated corporate items | 119.0 | 74.0 |
| Restructuring, impairment, and other exit costs | 14.0 | 2.8 |
| Operating profit | \$ 557.5 | \$ 734.8 |

(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.

(17) Subsequent Events

On September 8, 2014, we entered into a definitive agreement to acquire all of the outstanding shares of Annie's Inc., a U.S. producer of branded organic and natural food products, for \$46 per share in cash. The proposed transaction has an aggregate value of approximately \$820 million. We expect the transaction to close by December 31, 2014.

We are currently pursuing several multi-year restructuring initiatives designed to increase our efficiency and focus our business behind our key growth strategies. Project Century is a review of our North American manufacturing and distribution network to streamline operations and identify potential capacity reductions. We are also pursuing other restructuring projects aimed at overhead cost reduction efforts.

In the second quarter of fiscal 2015, we approved a restructuring plan to consolidate yogurt manufacturing capacity and exit our Methuen, MA facility in our U.S. Retail and Convenience Stores and Foodservice supply chains as part of Project Century. This action will affect approximately 250 positions and we expect to record approximately \$7 million of severance expense in the second quarter of fiscal 2015. In addition, we expect to record approximately \$16 million of additional expense in the second quarter of fiscal 2015 and \$18 million of expense in the remainder of fiscal 2015, primarily fixed asset write-offs. We expect this action to be completed by the end of fiscal 2017 with a total cost of approximately \$65 million of which approximately \$17 million will be cash.

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Also as part of Project Century, in the second quarter of fiscal 2015, we notified the union member employees and union representatives at our Lodi, CA facility of our tentative decision, pending negotiations and consultation with the union, to close this plant to eliminate excess cereal and dry mix capacity in our U.S. Retail supply chain. If implemented, this action could affect approximately 430 positions and we expect to incur charges of approximately \$70 million in fiscal 2015 including approximately \$31 million of severance expense and \$39 million of additional expense, primarily fixed asset write-offs. We expect this action to be completed by the end of fiscal 2017 with a total cost of approximately \$123 million of which approximately \$24 million will be cash.

In the second quarter of fiscal 2015, we also approved Project Catalyst, a restructuring plan designed to increase organizational effectiveness and reduce overhead expense. At this time, we are unable to make a determination of the estimated amount or range of amounts to be incurred for each type of cost associated with these actions. We will provide further details in an amended Form 8-K at such time as we are able to estimate the costs we expect to incur.

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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 25, 2014, 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**First Quarter Results**

For the first quarter of fiscal 2015, net sales declined 2 percent to \$4,268 million. Total segment operating profit was \$690 million, 15 percent lower than the first quarter of fiscal 2014 and also 15 percent lower on a constant currency basis. Diluted earnings per share (EPS) of \$0.55 was down 21 percent compared to the first quarter of fiscal 2014. Diluted EPS excluding certain items affecting comparability was \$0.61 in the first quarter of fiscal 2015 compared to \$0.70 in the same period last year. Diluted EPS excluding certain items affecting comparability on a constant currency basis decreased 13 percent compared to the first quarter of fiscal 2014 (see the Non-GAAP Measures section below for our use of these measures not defined by GAAP).

Net sales declined 2 percent to \$4,268 million for the first quarter of fiscal 2015 compared to the same period last year due to a 2 percentage point decrease in contributions from volume growth and 1 percentage point of unfavorable foreign currency exchange, partially offset by 1 percentage point of favorable net price realization and mix.

Components of net sales growth**First Quarter of Fiscal 2015 vs.**

| First Quarter of Fiscal 2014 | U.S. Retail | International | Convenience Stores and Foodservice | Combined Segments |
|--------------------------------------|--------------------|----------------------|---|------------------------------|
| Contributions from volume growth (a) | -2pts | -1pt | -1pt | -2pts |
| Net price realization and mix | -3pts | 7pts | 2pts | 1pt |
| Foreign currency exchange | NA | -4pts | NM | -1pt |
| Net sales growth | -5pts | 2pts | 1pt | -2pts |

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

Cost of sales increased \$70 million from the first quarter of fiscal 2014 to \$2,830 million. The increase was driven by a \$66 million increase attributable to product mix, partially offset by a \$44 million decrease in cost of sales attributable to lower volume. In the first quarter of fiscal 2015, we recorded a \$49 million net increase in cost of sales related to the mark-to-market valuation of certain commodity positions and grain inventories compared to a net increase of \$1 million in the first quarter of fiscal 2014.

Selling, general, and administrative (SG&A) expenses decreased \$8 million to \$867 million in the first quarter of fiscal 2015 versus the same period in fiscal 2014. The decrease in SG&A expenses was primarily driven by lower compensation expense, partially offset by a 1 percentage point increase in media and advertising expense. SG&A expenses as a percent of net sales in the first quarter of fiscal 2015 were up 30 basis points compared with the first quarter of fiscal 2014.

Restructuring, impairment, and other exit costs were \$14 million in the first quarter of fiscal 2015 compared to \$3 million in the same period last year. 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. Approximately 240 positions will be affected by these actions. We expect to incur approximately \$15 million of net expenses relating to these actions and we recorded \$14 million of expense in the first quarter of fiscal 2015, including \$13 million of severance and \$1 million of asset write-offs and other costs. We expect these actions to be completed in fiscal 2016.

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We are currently pursuing several multi-year restructuring initiatives designed to increase our efficiency and focus our business behind our key growth strategies. Project Century is a review of our North American manufacturing and distribution network to streamline operations and identify potential capacity reductions, with a goal of annual savings of approximately \$100 million by the end of fiscal 2017. We are also pursuing overhead cost reduction efforts, that have a goal of \$40 million of savings in fiscal 2015, with additional savings expected in fiscal 2016. For additional information, please see Note 17 to the Consolidated Financial Statements in Part I, Item 1 of this report.

Interest, net for the first quarter of fiscal 2015 totaled \$78 million, a \$1 million decrease from the same period of fiscal 2014. The average interest rate decreased 58 basis points, including the effect of the mix of debt, generating a \$12 million decrease in net interest. Average interest bearing instruments increased \$1,010 million, generating an \$11 million increase in net interest.

The **effective tax rate** for the first quarter of fiscal 2015 was 31.8 percent compared to 32.3 percent for the first quarter of fiscal 2014. The 0.5 percentage point decrease was primarily due to favorable audit settlements in the first quarter of fiscal 2015, partially offset by the expiration of certain favorable tax laws.

After-tax earnings from joint ventures increased to \$26 million compared to \$24 million in the same quarter last fiscal year, primarily due to favorable quarterly tax expense and favorable foreign currency exchange at Cereal Partners Worldwide (CPW). In the first quarter of fiscal 2015, net sales for CPW increased 1 percent driven by a 2 percentage point increase from favorable foreign currency exchange, partially offset by a 1 percentage point decrease in contributions from volume growth. Net sales for Häagen-Dazs Japan, Inc. (HDJ) was flat as 5 percentage points of contribution from volume growth were offset by a 3 percentage point decrease from unfavorable foreign currency exchange and a 2 percentage point decrease due to unfavorable net price realization and mix.

Average diluted shares outstanding decreased by 31 million in the first quarter of fiscal 2015 from the same period a year ago due to the impact of share repurchases, partially offset by option exercises.

Net earnings attributable to General Mills were \$345 million in the first quarter of fiscal 2015, down 25 percent from \$459 million last year. **Diluted EPS** was \$0.55 in the first quarter of fiscal 2015, down 21 percent from \$0.70 last year. These results include the effects from the mark-to-market valuation of certain commodity positions and grain inventories and restructuring charges. Diluted EPS excluding certain items affecting comparability was \$0.61 in the first quarter of fiscal 2015 compared to \$0.70 in the same period last year. Diluted EPS excluding certain items affecting comparability on a constant currency basis in the first quarter of fiscal 2015, decreased 13 percent compared to the first quarter of fiscal 2014 (see the Non-GAAP Measures section below for our use of these measures not defined by GAAP and our discussion of the items affecting comparability).

SEGMENT OPERATING RESULTS

Our businesses are organized into three operating segments: U.S. Retail; International; and Convenience Stores and Foodservice.

Beginning in the first quarter of fiscal 2015, we have changed how we assess segment operating performance to exclude the asset and liability remeasurement impact from hyperinflationary economies. This impact is now included in unallocated corporate items. All periods presented have been changed to conform to this presentation.

U.S. Retail Segment Results

Net sales for our U.S. Retail segment of \$2,444 million in the first quarter of fiscal 2015 decreased 5 percentage points compared to the first quarter of fiscal 2014 due to 3 percentage points of unfavorable net price realization and mix, including the impact of merchandising expense phasing, and a 2 percentage point decline in contributions from volume growth. The 5 percentage point decrease in net sales was primarily driven by the Big G, Baking Products, Meals, and Frozen Foods divisions, partially offset by increases in the Snacks, Yoplait, and Small Planet Foods divisions.

Table of Contents**U.S. Retail Net Sales Percentage Change by Division**

| | Quarter Ended Aug. 24, 2014 |
|--------------------|--|
| Big G | (9)% |
| Baking Products | (11) |
| Snacks | 3 |
| Frozen Foods | (6) |
| Yoplait | 1 |
| Meals | (13) |
| Small Planet Foods | 2 |
| Total | (5)% |

Segment operating profit decreased 25 percent to \$457 million in the first quarter of fiscal 2015. The decrease was primarily driven by unfavorable net price realization, lower volume, and unfavorable product mix.

International Segment Results

Net sales for our International segment of \$1,351 million increased 2 percent in the first quarter of fiscal 2015 compared to the same period of fiscal 2014. The components of net sales growth included 7 percentage points of favorable net price realization and mix, partially offset by 4 percentage points of unfavorable foreign currency exchange and a 1 percentage point decrease in contributions from volume growth.

International Net Sales Percentage Change by Geographic Region

| | Percentage Change in Net Sales as Reported Quarter Ended Aug. 24, 2014 | Percentage Change in Net Sales on Constant Currency Basis (a) Quarter Ended Aug. 24, 2014 |
|---------------|---|---|
| Europe | 9% | 4% |
| Canada | (6) | (2) |
| Asia/Pacific | 4 | 4 |
| Latin America | (4) | 20 |
| Total | 2% | 6% |

(a) See the **Non-GAAP Measures** section below for our use of this measure.

The 2 percentage point increase in fiscal 2015 first quarter net sales in the International segment was driven by growth in our Europe and Asia/Pacific regions, partially offset by declines in the Canada and Latin America regions. On a constant currency basis, International segment net sales grew 6 percent, with 20 percent growth in the Latin America region, 4 percent growth in the Asia/Pacific region, and 4 percent growth in the Europe region, partially offset by a 2 percent decline in the Canada region.

Segment operating profit increased 16 percent to \$146 million in the first quarter of fiscal 2015 compared to the same period of fiscal 2014, primarily driven by favorable net price realization and mix. International segment operating profit increased 17 percent on a constant currency basis in the first quarter of fiscal 2015 compared to the first quarter of fiscal 2014 (see the **Non-GAAP Measures** section below for our use of this measure not defined by GAAP).

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Convenience Stores and Foodservice Segment Results

Net sales for the segment of \$473 million increased 1 percentage point in the first quarter of fiscal 2015 compared to the same period of fiscal 2014. The increase was driven by 2 percentage points of favorable net price realization and mix, partially offset by a 1 percentage point decline in contributions from volume growth.

Segment operating profit for the first quarter of fiscal 2015 increased 18 percent to \$87 million compared to the first quarter of fiscal 2014 primarily due to lower input costs and favorable net price realization and mix, partially offset by a decrease in volume.

UNALLOCATED CORPORATE ITEMS

Beginning in the first quarter of fiscal 2015, we have changed how we assess segment operating performance to exclude the asset and liability remeasurement impact from hyperinflationary economies. This impact is now included in unallocated corporate items. All periods presented have been changed to conform to this presentation.

Unallocated corporate expense totaled \$119 million in the first quarter of fiscal 2015 compared to \$74 million in the same period in fiscal 2014. In the first quarter of fiscal 2015, we recorded a \$49 million net increase in expense related to the mark-to-market valuation of certain commodity positions and grain inventories, compared to a \$1 million net increase in expense in the first quarter of fiscal 2014.

Venezuela is a highly inflationary economy and as such, we remeasure the value of the assets and liabilities of our Venezuelan subsidiary based on the exchange rate at which we expect to remit dividends in U.S. dollars. In February 2014, the Venezuelan government established a new foreign exchange market mechanism (SICAD 2) and has indicated that this will be the market through which U.S. dollars will be obtained for the remittance of dividends. This market has significantly higher foreign exchange rates than those available through the other foreign exchange mechanisms. In the first quarter of fiscal 2015, we recorded an immaterial impact in unallocated corporate items resulting from the remeasurement of assets and liabilities of our Venezuelan subsidiary at the SICAD 2 rate. We have been able to access U.S. dollars through the SICAD 2 market. Our Venezuela operations represent less than 1 percent of our consolidated assets, liabilities, net sales, and segment operating profit. At August 24, 2014, we had \$3.7 million of non-U.S. dollar cash balances in Venezuela.

LIQUIDITY

During the quarter ended August 24, 2014, our operations generated \$329 million of cash compared to \$381 million in the same period last year. The \$52 million decrease is primarily due to lower earnings in the first quarter of fiscal 2015 compared to the first quarter of fiscal 2014.

Cash used by investing activities during the quarter ended August 24, 2014, was \$197 million, \$84 million more than the same period in fiscal 2014. We invested \$149 million in land, buildings, and equipment during the first quarter of fiscal 2015, \$25 million more than the previous year. We made \$33 million of net investments in affiliates, primarily CPW, in the first quarter of fiscal 2015.

Cash used by financing activities during the first quarter ended August 24, 2014, was \$153 million compared to \$237 million in the same period last year. We had \$244 million more net debt issuances in the first quarter of fiscal 2015 than the same period a year ago. We also paid \$439 million in cash to repurchase common stock and paid \$254 million of dividends in the first quarter fiscal 2015 compared to \$298 million and \$248 million, respectively, in the same period last year.

As of August 24, 2014, we had \$816 million of cash and cash equivalents held in foreign jurisdictions which will be used to fund foreign operations and potential acquisitions. There is currently no need to repatriate these funds in order to meet domestic funding obligations or scheduled cash distributions. If we choose to repatriate cash held in foreign jurisdictions, we intend to do so only in a tax-neutral manner.

Table of Contents**CAPITAL RESOURCES**

Our capital structure was as follows:

| In Millions | Aug. 24, 2014 | May 25, 2014 |
|-----------------------------------|--------------------------|-------------------------|
| Notes payable | \$ 1,795.4 | \$ 1,111.7 |
| Current portion of long-term debt | 855.4 | 1,250.6 |
| Long-term debt | 6,669.1 | 6,423.5 |
| Total debt | 9,319.9 | 8,785.8 |
| Redeemable interest | 959.1 | 984.1 |
| Noncontrolling interests | 480.5 | 470.6 |
| Stockholders' equity | 6,202.3 | 6,534.8 |
| Total capital | \$ 16,961.8 | \$ 16,775.3 |

To ensure availability of funds, we maintain bank credit lines sufficient to cover our outstanding short-term borrowings. 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.

The following table details the fee-paid committed and uncommitted credit lines we had available as of August 24, 2014:

| In Billions | Facility Amount | Borrowed Amount |
|---|----------------------------|----------------------------|
| Credit facility expiring: | | |
| April 2017 | \$ 1.7 | \$ |
| May 2019 | 1.0 | |
| June 2019 | 0.3 | 0.1 |
| Total committed credit facilities | 3.0 | 0.1 |
| Uncommitted credit facilities | 0.4 | 0.2 |
| Total committed and uncommitted credit facilities | \$ 3.4 | \$ 0.3 |

The third-party holder of the General Mills Cereals, LLC (GMC) Class A Interests receives quarterly preferred distributions from available net income based on the application of a floating preferred return rate, currently equal to the sum of three-month LIBOR plus 110 basis points, to the holder's capital account balance established in the most recent mark-to-market valuation (currently \$252 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.

The holder of the Class A Interests may initiate a liquidation of GMC under certain circumstances, including, without limitation, the bankruptcy of GMC or its subsidiaries, GMC's failure to deliver the preferred distributions on the Class A Interests, GMC's failure to comply with portfolio requirements, breaches of certain covenants, lowering of our senior debt rating below either Baa3 by Moody's or BBB- by Standard & Poor's, and a failed attempt to remarket the Class A Interests. In the event of a liquidation of GMC, each member of GMC will receive the amount of its then current capital account balance. We may avoid liquidation by exercising our option to purchase the Class A Interests.

We may exercise our option to purchase the Class A Interests for consideration equal to the then current capital account value, plus any unpaid preferred return and the prescribed make-whole amount. If we purchase these interests, any change in the unrelated third-party investor's capital account from its original value will be charged directly to retained earnings and will increase or decrease the net earnings used to calculate EPS in that period.

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We have a 51 percent controlling interest in Yoplait S.A.S. and a 50 percent interest in Yoplait Marques S.A.S. and Liberté Marques S.a.r.l. Sodiaal International (Sodiaal) holds the remaining interests in each of these entities. We consolidate these entities into our consolidated financial statements. As of August 24, 2014, we recorded Sodiaal's 50 percent interests in Yoplait Marques S.A.S. and Liberté Marques S.a.r.l. as noncontrolling interests, and the fair value of its 49 percent interest in Yoplait S.A.S. as a redeemable interest on our Consolidated Balance Sheets. These euro-denominated interests are reported in U.S. dollars 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. As of August 24, 2014, the redemption value of the redeemable interest was \$1.0 billion which approximates its fair value.

Certain of our long-term debt agreements, our credit facilities, and our noncontrolling interests contain restrictive covenants. As of August 24, 2014, we were in compliance with all of these covenants.

On September 8, 2014, we entered into a definitive agreement to acquire all of the outstanding shares of Annie's Inc., a U.S. producer of branded organic and natural food products, for \$46 per share in cash. The proposed transaction has an aggregate value of approximately \$820 million. We expect the transaction to close by December 31, 2014. We intend to finance this acquisition through available credit.

We have \$855 million of long-term debt maturing in the next 12 months that is classified as current, primarily \$750 million of 5.2 percent notes due in March 2015. We believe that cash flows from operations, together with available short- and long-term debt financing, will be adequate to meet our liquidity and capital needs for at least the next 12 months.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

There were no material changes outside the ordinary course of our business in our contractual obligations or off-balance sheet arrangements during the first quarter of fiscal 2015.

SIGNIFICANT ACCOUNTING ESTIMATES

Our significant accounting policies are described in Note 2 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 25, 2014. The accounting policies used in preparing our interim fiscal 2015 Consolidated Financial Statements are the same as those described in our Form 10-K.

Our significant accounting estimates are those that have meaningful impact on the reporting of our financial condition and results of operations. These estimates include our accounting for promotional expenditures, valuation of long-lived assets, intangible assets, redeemable interest, stock-based compensation, income taxes, and defined benefit pension, other postretirement benefit, and postemployment benefit plans. The assumptions and methodologies used in the determination of those estimates as of August 24, 2014, are the same as those described in our Annual Report on Form 10-K for the fiscal year ended May 25, 2014.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Boards issued new accounting requirements for the recognition of revenue from contracts with customers. The requirements of the new standard are effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods, which for us is the first quarter of fiscal 2018. We do not expect this guidance to have a material impact on our results of operations or financial position.

In June 2014, the Financial Accounting Standards Boards issued new accounting requirements for share-based payment awards issued based upon specific performance targets. The requirements of the new standard are effective for annual reporting periods beginning after December 15, 2015, and interim periods within those annual periods, which for us is the first quarter of fiscal 2017. We do not expect this guidance to have a material impact on our results of operations or financial position.

Table of Contents**NON-GAAP MEASURES**

We have included in this report measures of financial performance that are not defined by GAAP. We believe that these measures provide useful information to investors, and include these measures in other communications to investors.

For each of these non-GAAP financial measures, we are providing below a reconciliation of the differences between the non-GAAP measure and the most directly comparable GAAP measure, an explanation of why our management or the Board of Directors believes the non-GAAP measure provides useful information to investors, and any additional purposes for which our management or Board of Directors uses the non-GAAP measure. These non-GAAP measures should be viewed in addition to, and not in lieu of, the comparable GAAP measure.

Constant Currency Diluted EPS Excluding Certain Items Affecting Comparability

This measure is used in reporting to our executive management and as a component of the Board of Director's measurement of our performance for incentive compensation purposes. We believe that this measure provides useful information to investors because it is the profitability measure we use to evaluate earnings performance on a comparable year-over-year basis. The adjustments are either items resulting from infrequently occurring events or items that, in management's judgment, significantly affect the year-over-year assessment of operating results.

The reconciliation of our GAAP measure, diluted EPS, to diluted EPS excluding certain items affecting comparability and the related constant currency growth rate follows:

| Per Share Data | Quarter Ended | | Change |
|--|--------------------------|--------------------------|---------------|
| | Aug. 24, 2014 | Aug. 25, 2013 | |
| Diluted earnings per share, as reported | \$ 0.55 | \$ 0.70 | (21)% |
| Mark-to-market effects (a) | 0.05 | | |
| Restructuring costs (b) | 0.01 | | |
| Diluted earnings per share, excluding certain items affecting comparability | \$ 0.61 | \$ 0.70 | (13)% |
| Foreign currency exchange impact | | | % |
| Diluted earnings per share growth, excluding certain items affecting comparability, on a constant currency basis | | | (13)% |

(a) Net gain from mark-to-market valuation of certain commodity positions and grain inventories. See Note 6 to the Consolidated Financial Statements in Part I, Item 1 of this report.

(b) See Note 3 to the Consolidated Financial Statements in Part I, Item 1 of this report.

Table of Contents**Total Segment Operating Profit**

This measure is used in reporting to our executive management and as a component of the Board of Directors' measurement of our performance for incentive compensation purposes. We believe that this measure provides useful information to investors because it is the profitability measure we use to evaluate segment performance. A reconciliation of this measure to operating profit, the relevant GAAP measure, is included in Note 15 to the Consolidated Financial Statements in Part I, Item 1 of this report.

Total Segment Operating Profit Growth Rate on a Constant Currency Basis is calculated as follows:

| | Percentage Change in Total Segment Operating Profit as Reported | Quarter Ended Aug. 24, 2014 Impact of Foreign Currency Exchange | Percentage Change in Total Segment Operating Profit on Constant Currency Basis |
|--------------------------------|--|--|---|
| Total Segment Operating Profit | (15)% | Flat | (15)% |

Constant Currency International Segment Operating Profit Growth Rate

We believe that this measure provides useful information to investors because it provides transparency to underlying performance of the International segment by excluding the effect that foreign currency exchange rate fluctuations have on year-to-year comparability given volatility in foreign exchange markets.

| | Percentage Change in Segment Operating Profit as Reported | Quarter Ended Aug. 24, 2014 Impact of Foreign Currency Exchange | Percentage Change in Segment Operating Profit on Constant Currency Basis |
|--|--|--|---|
| International Segment Operating Profit | 16% | (1) pt | 17% |

Constant Currency Net Sales Growth Rates for Our International Segment

We believe that this measure of our International segment and region net sales provides useful information to investors because it provides transparency to the underlying performance in markets outside the United States by excluding the effect that foreign currency exchange rate fluctuations have on year-to-year comparability given volatility in foreign exchange markets.

| | Percentage Change in Net Sales as Reported | Quarter Ended Aug. 24, 2014 Impact of Foreign Currency Exchange | Percentage Change in Net Sales on Constant Currency Basis |
|---------------------|---|--|--|
| Europe | 9% | 5 pts | 4% |
| Canada | (6) | (4) | (2) |
| Asia/Pacific | 4 | | 4 |
| Latin America | (4) | (24) | 20 |
| Total International | 2% | (4) pts | 6% |

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GLOSSARY

AOCI. Accumulated other comprehensive income (loss).

Constant currency. Financial results translated to U.S. dollars using constant foreign currency exchange rates based on the rates in effect for the comparable prior-year period. To present this information, current period results for entities reporting in currencies other than United States dollars are translated into United States dollars at the average exchange rates in effect during the corresponding period of the prior fiscal year, rather than the actual average exchange rates in effect during the current fiscal year. Therefore, the foreign currency impact is equal to current year results in local currencies multiplied by the change in the average foreign currency exchange rate between the current fiscal period and the corresponding period of the prior fiscal year.

Derivatives. Financial instruments such as futures, swaps, options, and forward contracts that we use to manage our risk arising from changes in commodity prices, interest rates, foreign exchange rates, and stock prices.

Euribor. Euro Interbank Offered Rate.

Fair value hierarchy. For purposes of fair value measurement, we categorize assets and liabilities into one of three levels based on the assumptions (inputs) used in valuing the asset or liability. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's assumptions about the inputs used in pricing the asset or liability.

Generally Accepted Accounting Principles (GAAP). Guidelines, procedures, and practices that we are required to use in recording and reporting accounting information in our financial statements.

Goodwill. The difference between the purchase price of acquired companies plus the fair value of any noncontrolling and redeemable interests and the related fair values of net assets acquired.

Hedge accounting. Accounting for qualifying hedges that allows changes in a hedging instrument's fair value to offset corresponding changes in the hedged item in the same reporting period. Hedge accounting is permitted for certain hedging instruments and hedged items only if the hedging relationship is highly effective, and only prospectively from the date a hedging relationship is formally documented.

Interest bearing instruments. Notes payable, long-term debt, including current portion, cash and cash equivalents, and certain interest bearing investments classified within prepaid expenses and other current assets and other assets.

International segment operating profit. Excludes the asset and liability remeasurement impact of hyperinflationary economies from our segment operating profits.

LIBOR. London Interbank Offered Rate.

Mark-to-market. The act of determining a value for financial instruments, commodity contracts, and related assets or liabilities based on the current market price for that item.

Net mark-to-market valuation of certain commodity positions. Realized and unrealized gains and losses on derivative contracts that will be allocated to segment operating profit when the exposure we are hedging affects earnings.

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Net price realization. The impact of list and promoted price changes, net of trade and other price promotion costs.

Noncontrolling interests. Interests of subsidiaries held by third parties.

Notional principal amount. The principal amount on which fixed-rate or floating-rate interest payments are calculated.

OCI. Other Comprehensive Income.

Redeemable interest. Interest of subsidiaries held by a third party that can be redeemed outside of our control and therefore cannot be classified as a noncontrolling interest in equity.

Total debt. Notes payable and long-term debt, including current portion.

Translation adjustments. The impact of the conversion of our foreign affiliates' financial statements to U.S. dollars for the purpose of consolidating our financial statements.

CAUTIONARY STATEMENT RELEVANT TO FORWARD-LOOKING INFORMATION FOR THE PURPOSE OF SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This report contains or incorporates by reference forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on our current expectations and assumptions. We also may make written or oral forward-looking statements, including statements contained in our filings with the Securities and Exchange Commission (SEC) and in our reports to stockholders.

The words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "plan," "project," or similar expressions identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results and those currently anticipated or projected. We wish to caution you not to place undue reliance on any such forward-looking statements.

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important factors that could affect our financial performance and could cause our actual results in future periods to differ materially from any current opinions or statements.

Our future results could be affected by a variety of factors, such as: competitive dynamics in the consumer foods industry and the markets for our products, including new product introductions, advertising activities, pricing actions, and promotional activities of our competitors; economic conditions, including changes in inflation rates, interest rates, tax rates, or the availability of capital; product development and innovation; consumer acceptance of new products and product improvements; consumer reaction to pricing actions and changes in promotion levels; acquisitions or dispositions of businesses or assets; changes in capital structure; changes in laws and regulations, including labeling and advertising regulations; impairments in the carrying value of goodwill, other intangible assets, or other long-lived assets, or changes in the useful lives of other intangible assets; changes in accounting standards and the impact of significant accounting estimates; product quality and safety issues, including recalls and product liability; changes in consumer demand for our products; effectiveness of advertising, marketing, and promotional programs; changes in consumer behavior, trends, and preferences, including weight loss trends; consumer perception of health-related issues, including obesity; consolidation in the retail environment; changes in purchasing and inventory levels of significant customers; fluctuations in the cost and availability of supply chain resources, including raw materials, packaging, and energy; disruptions or inefficiencies in the supply chain; volatility in the market value of derivatives used to manage price risk for certain commodities; benefit plan expenses due to changes in plan asset values and discount rates used to determine plan liabilities; failure or breach of our information technology systems; foreign economic conditions, including currency rate fluctuations; and political unrest in foreign markets and economic uncertainty due to terrorism or war.

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You should also consider the risk factors that we identify in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended May 25, 2014, which could also affect our future results.

We undertake no obligation to publicly revise any forward-looking statements to reflect events or circumstances after the date of those statements or to reflect the occurrence of anticipated or unanticipated events.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The estimated maximum potential value-at-risk arising from a one-day loss in fair value for our interest rate and commodity market-risk-sensitive instruments outstanding as of August 24, 2014, was \$25 million and \$2 million, respectively. During the three-month period ended August 24, 2014, the interest rate value-at-risk increased by \$2 million while the commodity value-at-risk decreased by \$1 million compared to this measure as of May 25, 2014. The value-at-risk for interest rate instruments increased due to higher interest rate market volatility and the issuance of long-term debt, while value-at-risk for commodity positions decreased due to lower volatility and reduced notional amounts of commodity transactions. For additional information, see Item 7A of Part II of our Annual Report on Form 10-K for the fiscal year ended May 25, 2014.

Item 4. Controls and Procedures.

We, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on our evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of August 24, 2014, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is (1) recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during our quarter ended August 24, 2014, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table sets forth information with respect to shares of our common stock that we purchased during the quarter ended August 24, 2014:

| Period | Total Number of Shares Purchased (a) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of a Publicly Announced Program (b) | Maximum Number of Shares that may yet be Purchased Under the Program (b) |
|-----------------|---|---|---|---|
| May 26, 2014 | | | | |
| June 29, 2014 | 604,847 | \$ 52.12 | 604,847 | 99,395,153 |
| June 30, 2014 | | | | |
| July 27, 2014 | 3,909,804 | 52.99 | 3,909,804 | 95,485,349 |
| July 28, 2014 | | | | |
| August 24, 2014 | 4,317,805 | 51.82 | 4,317,805 | 91,167,544 |
| Total | 8,832,456 | \$ 52.36 | 8,832,456 | 91,167,544 |

- (a) The total number of shares purchased includes: (i) shares purchased on the open market; and (ii) shares withheld for the payment of withholding taxes upon the distribution of deferred option units.
- (b) On May 6, 2014, our Board of Directors approved an authorization for the repurchase of up to 100,000,000 shares of our common stock. Purchases can be made in the open market or in privately negotiated transactions, including the use of call options and other derivative instruments, Rule 10b5-1 trading plans, and accelerated repurchase programs. The Board did not specify an expiration date for the authorization.

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Item 6. Exhibits.

10.1* Form of Performance Share Unit Award Agreement.

12.1 Computation of Ratio of Earnings to Fixed Charges.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 Financial Statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended August 24, 2014, formatted in Extensible Business Reporting Language: (i) the Consolidated Statements of Earnings; (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets; (iv) the Consolidated Statements of Total Equity and Redeemable Interest; (v) the Consolidated Statements of Cash Flows; and (vi) the Notes to Consolidated Financial Statements.

* Management contract or compensatory plan or arrangement required to be filed pursuant to Item 601(b)(10)(iii)(A) of Regulation S-K.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GENERAL MILLS, INC.
(Registrant)

Date September 18, 2014

/s/ Roderick A. Palmore
Roderick A. Palmore
Executive Vice President,

General Counsel and Secretary

Date September 18, 2014

/s/ Jerald A. Young
Jerald A. Young
Vice President, Controller

(Principal Accounting Officer)

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Exhibit Index

| Exhibit No. | Description |
|--------------------|--|
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| * | Management contract or compensatory plan or arrangement required to be filed pursuant to Item 601(b)(10)(iii)(A) of Regulation S-K. |