GENERAL MILLS INC
Form 10-K
June 30, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED May 29, 2016

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ______ TO ______

Commission file number: 001-01185

GENERAL MILLS, INC.

(Exact name of registrant as specified in its charter)

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

(763) 764-7600

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.10 par value	New York Stock Exchange
Floating Rate Notes due 2020	New York Stock Exchange
2.100% Notes due 2020	New York Stock Exchange
1.000% Notes due 2023	New York Stock Exchange
1.500% Notes due 2027	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one):

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

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

Aggregate market value of Common Stock held by non-affiliates of the registrant, based on the closing price of $58.41 per share as reported on the New York Stock Exchange on November 27, 2015 (the last business day of the registrant s most recently completed second fiscal quarter): $34,654.2 million.

Number of shares of Common Stock outstanding as of June 13, 2016: 597,020,906 (excluding 157,592,422 shares held in the treasury).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement for its 2016 Annual Meeting of Shareholders are incorporated by reference into Part III.

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PART I

ITEM 1 Business

General Mills, Inc. was incorporated in Delaware in 1928. The terms General Mills, Company, registrant, we, us, our mean General Mills, Inc. and all subsidiaries included in the Consolidated Financial Statements in Item 8 of this report unless the context indicates otherwise.

Certain terms used throughout this report are defined in a glossary in Item 8 of this report.

COMPANY OVERVIEW

We are a leading global manufacturer and marketer of branded consumer foods sold through retail stores. We also are a leading supplier of branded and unbranded food products to the North American foodservice and commercial baking industries. We manufacture our products in 13 countries and market them in more than 100 countries. In addition to our consolidated operations, we have 50 percent interests in two strategic joint ventures that manufacture and market food products sold in more than 130 countries worldwide.

We manage and review the financial results of our business under three operating segments: U.S. Retail; International; and Convenience Stores and Foodservice. See Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) in Item 7 of this report for a description of our segments. For financial information by segment and geographic area, see Note 16 to the Consolidated Financial Statements in Item 8 of this report.

We offer a variety of food products that provide great taste, nutrition, convenience and value for consumers around the world, with a focus on five large global categories:

- ready-to-eat cereal;
- convenient meals, including meal kits, ethnic meals, pizza, soup, side dish mixes, frozen breakfast, and frozen entrees;
- snacks, including grain, fruit and savory snacks, nutrition bars, and frozen hot snacks;
- yogurt; and
- super-premium ice cream.

Other significant product categories include:

- baking mixes and ingredients; and

refrigerated and frozen dough.

Our Cereal Partners Worldwide (CPW) joint venture with Nestlé S.A. (Nestlé) competes in the ready-to-eat cereal category in markets outside North America, and our Häagen-Dazs Japan, Inc. (HDJ) joint venture competes in the super-premium ice cream category in Japan. For net sales contributed by each class of similar products, see Note 16 to the Consolidated Financial Statements in Item 8 of this report.

Customers. Our primary customers are grocery stores, mass merchandisers, membership stores, natural food chains, drug, dollar and discount chains, e-commerce grocery providers, commercial and noncommercial foodservice distributors and operators, restaurants, and convenience stores. We generally sell to these customers through our direct sales force. We use broker and distribution arrangements for certain products and to serve certain types of customers. For further information on our customer credit and product return practices, please refer to Note 2 to the Consolidated Financial Statements in Item 8 of this report. During fiscal 2016, Wal-Mart Stores, Inc. and its

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affiliates (Wal-Mart) accounted for 20 percent of our consolidated net sales and 30 percent of net sales of our U.S. Retail segment. No other customer accounted for 10 percent or more of our consolidated net sales. For further information on significant customers, please refer to Note 7 to the Consolidated Financial Statements in Item 8 of this report.

Competition. The consumer foods industry is highly competitive, with numerous manufacturers of varying sizes in the United States and throughout the world. The food categories in which we participate also are very competitive. Our principal competitors in these categories all have substantial financial, marketing, and other resources. Competition in our product categories is based on product innovation, product quality, price, brand recognition and loyalty, effectiveness of marketing, promotional activity, and the ability to identify and satisfy consumer preferences. Our principal strategies for competing in each of our segments include unique consumer insights, effective customer relationships, superior product quality, innovative advertising, product promotion, product innovation aligned with consumers needs, an efficient supply chain, and price. In most product categories, we compete not only with other widely advertised, branded products, but also with regional brands and with generic and private label products that are generally sold at lower prices. Internationally, we compete with both multi-national and local manufacturers, and each country includes a unique group of competitors.

Raw materials, ingredients, and packaging. The principal raw materials that we use are grains (wheat, oats, and corn), sugar, dairy products, vegetables, fruits, meats, vegetable oils, and other agricultural products. We also use substantial quantities of carton board, corrugated, plastic and metal packaging materials, operating supplies, and energy. Most of these inputs for our domestic and Canadian operations are purchased from suppliers in the United States. In our international operations, inputs that are not locally available in adequate supply may be imported from other countries. The cost of these inputs may fluctuate widely due to external conditions such as weather, product scarcity, limited sources of supply, commodity market fluctuations, currency fluctuations, and changes in governmental agricultural and energy policies and regulations. We have some long-term fixed price contracts, but the majority of our inputs are purchased on the open market. We believe that we will be able to obtain an adequate supply of needed inputs. Occasionally and where possible, we make advance purchases of items significant to our business in order to ensure continuity of operations. Our objective is to procure materials meeting both our quality standards and our production needs at price levels that allow a targeted profit margin. Since these inputs generally represent the largest variable cost in manufacturing our products, to the extent possible, we often manage the risk associated with adverse price movements for some inputs using a variety of risk management strategies. We also have a grain merchandising operation that provides us efficient access to, and more informed knowledge of, various commodity markets, principally wheat and oats. This operation holds physical inventories that are carried at fair market value and uses derivatives to manage its net inventory position and minimize its market exposures.

RESEARCH AND DEVELOPMENT

Our research and development resources are focused on new product development, product improvement, process design and improvement, packaging, and exploratory research in new business and technology areas. Research and development expenditures were $222 million in fiscal 2016, $229 million in fiscal 2015, and $244 million in fiscal 2014.

TRADEMARKS AND PATENTS

Our products are marketed under a variety of valuable trademarks. Some of the more important trademarks used in our global operations (set forth in italics in this report) include *Annie s, Betty Crocker*, *Bisquick*, *Bugles*, *Cascadian Farm*, *Cheerios*, *Chex*, *Cinnamon Toast Crunch*, *Cocoa Puffs*, *Cookie Crisp*, *Fiber One*, *Food Should Taste Good*, *Fruit by the Foot*, *Fruit Gushers*, *Fruit Roll-Ups*, *Gardetto s*, *Go-Gurt*, *Gold Medal*, *Golden Grahams*, *Häagen-Dazs*, *Helpers*, *Jeno s*, *Jus-Rol*, *Kitano*, *Kix*, *La Salteña*, *Lärabar*, *Latina*, *Liberté*, *Lucky Charms*, *Muir Glen*, *Nature Valley*, *Oatmeal Crisp*, *Old El Paso*, *Pillsbury*, *Progresso*, *Raisin Nut Bran*, *Total*, *Totino s*, *Trix*, *Wanchai Ferry*, *Wheaties*, *Yoki*, and *Yoplait*. We protect these marks as appropriate through registrations in the United States and other jurisdictions. Depending on the jurisdiction, trademarks are generally valid as long as they are in use or their registrations are properly maintained and they have not been found to have become generic. Registrations of trademarks can also generally be renewed indefinitely as long as the trademarks are in use.

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Some of our products are marketed under or in combination with trademarks that have been licensed from others, including *Reese s Puffs* for cereal, *Hershey s* for a variety of products, *Green Giant* for vegetables in certain countries, and *Cinnabon* for refrigerated dough, frozen pastries, and baking products. Our fruit snacks business uses a variety of licensed trademarks, including *Mott s*, *Minions*, *Sunkist*, *Scooby Doo*, *Batman*, *Tom and Jerry*, *Hello Kitty*, *Thomas the Tank Engine*, and various Warner Bros. and Nickelodeon characters. Our yogurt business uses a variety of licensed trademarks, including various Disney, Marvel, Warner Bros., and Nickelodeon characters.

Our cereal trademarks are licensed to CPW and may be used in association with the *Nestlé* trademark. Nestlé licenses certain of its trademarks to CPW, including the *Nestlé* and *Uncle Toby s* trademarks. The *Häagen-Dazs* trademark is licensed royalty-free and exclusively to Nestlé for ice cream and other frozen dessert products in the United States and Canada. The *Häagen-Dazs* trademark is also licensed to HDJ. The J. M. Smucker Company holds an exclusive royalty-free license to use the *Pillsbury* brand and the *Pillsbury Doughboy* character in the dessert mix and baking mix categories in the United States and under limited circumstances in Canada and Mexico.

The *Yoplait* trademark and other related trademarks are owned by Yoplait Marques SNC, an entity in which we own a 50 percent interest. These marks are licensed exclusively to Yoplait SAS, an entity in which we own a 51 percent interest. Yoplait SAS licenses these trademarks to its franchisees. The *Liberté* trademark and other related trademarks are owned by Liberté Marques Sàrl, an entity in which we own a 50 percent interest.

We continue our focus on developing and marketing innovative, proprietary products. We consider the collective rights under our various patents, which expire from time to time, a valuable asset, but we do not believe that our businesses are materially dependent upon any single patent or group of related patents.

SEASONALITY

In general, demand for our products is evenly balanced throughout the year. However, within our U.S. Retail segment demand for refrigerated dough, frozen baked goods, and baking products is stronger in the fourth calendar quarter. Demand for *Progresso* soup is higher during the fall and winter months. Internationally, demand for *Häagen-Dazs* ice cream is higher during the summer months and demand for baking mix and dough products increases during winter months. Due to the offsetting impact of these demand trends, as well as the different seasons in the northern and southern hemispheres, our International segment net sales are generally evenly balanced throughout the year.

BACKLOG

Orders are generally filled within a few days of receipt and are subject to cancellation at any time prior to shipment. The backlog of any unfilled orders as of May 29, 2016, was not material.

WORKING CAPITAL

A description of our working capital is included in the Liquidity section of MD&A in Item 7 of this report. Our product return practices are described in Note 2 to the Consolidated Financial Statements in Item 8 of this report.

EMPLOYEES

As of May 29, 2016, we had approximately 39,000 full- and part-time employees.

FOOD QUALITY AND SAFETY REGULATION

The manufacture and sale of consumer food products is highly regulated. In the United States, our activities are subject to regulation by various federal government agencies, including the Food and Drug Administration, Department of Agriculture, Federal Trade Commission, Department of Commerce, and Environmental Protection Agency, as well as various state and local agencies. Our business is also regulated by similar agencies outside of the United States.

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ENVIRONMENTAL MATTERS

As of May 29, 2016, we were involved with two active cleanup sites associated with the alleged or threatened release of hazardous substances or wastes located in Minneapolis, Minnesota and Moonachie, New Jersey. These matters involve several different actions, including administrative proceedings commenced by regulatory agencies and demand letters by regulatory agencies and private parties.

Our operations are subject to the Clean Air Act, Clean Water Act, Resource Conservation and Recovery Act, Comprehensive Environmental Response, Compensation, and Liability Act, and the Federal Insecticide, Fungicide, and Rodenticide Act, and all similar state, local, and foreign environmental laws and regulations applicable to the jurisdictions in which we operate.

Based on current facts and circumstances, we believe that neither the results of our environmental proceedings nor our compliance in general with environmental laws or regulations will have a material adverse effect upon our capital expenditures, earnings, or competitive position.

EXECUTIVE OFFICERS

The section below provides information regarding our executive officers as of June 30, 2016:

Richard C. Allendorf, age 55, is Senior Vice President, General Counsel, and Secretary. Mr. Allendorf joined General Mills in 2001 from The Pillsbury Company. He was promoted to Vice President, Deputy General Counsel in 2010, first overseeing the legal affairs of the U.S. Retail segment and Consumer Food Sales and then, in August 2012, overseeing the legal affairs of the International segment and Global Ethics and Compliance. He was named to his present position in February 2015. Prior to joining General Mills, he practiced law with the Shearman and Sterling and Mackall, Crounse and Moore law firms. He was in finance with General Electric prior to his legal career.

John R. Church, age 50, is Executive Vice President, Supply Chain. Mr. Church joined General Mills in 1988 as a Product Developer in the Big G cereals division and held various positions before becoming Vice President, Engineering in 2003. In 2005, his role was expanded to include development of the Company s strategy for the global sourcing of raw materials and manufacturing capabilities. He was named Vice President, Supply Chain Operations in 2007, Senior Vice President, Supply Chain in 2008, and to his present position in July 2013.

Peter C. Erickson, age 55, is Executive Vice President, Innovation, Technology and Quality. Mr. Erickson joined General Mills in 1994 as part of the Colombo yogurt acquisition. He has held various positions in Research & Development and became Vice President, Innovation, Technology and Quality in 2003 and Senior Vice President, Innovation, Technology and Quality in 2006. He was named to his present position in July 2013.

Jeffrey L. Harmening, age 49, is Executive Vice President, Chief Operating Officer, U.S. Retail. Mr. Harmening joined General Mills in 1994 and served in various marketing roles in the Betty Crocker, Yoplait, and Big G cereal divisions. He was promoted to Marketing Director in 2000 and held leadership roles in Big G New Enterprises and Foodservice New Business. He was named Vice President, Marketing for CPW in 2003 and a Vice President of the Big G cereal division in 2007. In 2011, he was promoted to Senior Vice President for the Big G cereal division. Mr. Harmening was appointed Senior Vice President, Chief Executive Officer of CPW in July 2012, and he was named to his present position in May 2014. Mr. Harmening was appointed President, Chief Operating Officer effective July 1, 2016.

Donal L. Mulligan, age 55, is Executive Vice President, Chief Financial Officer. Mr. Mulligan joined General Mills in 2001 from The Pillsbury Company. He served as Vice President, Financial Operations for our International division until 2004, when he was named Vice President, Financial Operations for Operations and Technology. Mr. Mulligan was appointed Treasurer of General Mills in 2006, Senior Vice President, Financial Operations in 2007, and was elected to his present position in 2007. From 1987 to 1998, he held several international positions at PepsiCo, Inc. and YUM! Brands, Inc. Mr. Mulligan is a director of Tennant Company.

Kimberly A. Nelson, age 53, is Senior Vice President, External Relations, and President of the General Mills Foundation. Ms. Nelson joined General Mills in 1988 and has held marketing leadership roles in the Big G cereal, Snacks, and Meals divisions. She was elected Vice President, President, Snacks in 2004, Senior Vice President, President, Snacks in 2008, and Senior Vice President, External Relations in September 2010. She was named President of the General Mills Foundation in 2011.

Shawn P. O Grady, age 52, is Senior Vice President, President, Sales & Channel Development. Mr. O Grady joined General Mills in 1990 and held several marketing roles in the Snacks, Meals and Big G cereal divisions. He was promoted to Vice President in 1998 and held marketing positions in the Betty Crocker and Pillsbury USA divisions. In 2004, he moved into Consumer Foods Sales, becoming Vice President, President, U.S. Retail Sales in 2007, and Senior Vice President, President, Consumer Foods Sales Division in 2010. He was promoted to his current position in June 2012.

Christopher D. O Leary, age 56, is Executive Vice President and Chief Operating Officer, International. Mr. O Leary joined General Mills in 1997 as Vice President, Corporate Growth. He was elected a Senior Vice President in 1999 and President of the Meals division in 2001. Mr. O Leary was named to his present position in 2006. Prior to joining General Mills, he spent 17 years at PepsiCo, Inc., last serving as President and Chief Executive Officer of the Hostess Frito-Lay business in Canada. Mr. O Leary is a director of Telephone and Data Systems, Inc.

Kendall J. Powell, age 62, is Chairman of the Board and Chief Executive Officer of General Mills. Mr. Powell joined General Mills in 1979 and served in a variety of positions before becoming a Vice President in 1990. He became President of the Yoplait division in 1996, President of the Big G cereal division in 1997, and Senior Vice President of General Mills in 1998. From 1999 to 2004, he served as Chief Executive Officer of CPW. He returned from CPW in 2004 and was elected Executive Vice President. Mr. Powell was elected President and Chief Operating Officer of General Mills with overall global operating responsibility for the Company in 2006, Chief Executive Officer in 2007, and Chairman of the Board in 2008. He is a director of Medtronic, Inc.

Jacqueline Williams-Roll, age 47, is Senior Vice President, Human Resources. Ms. Williams-Roll joined General Mills in 1995. She held human resources leadership roles in Supply Chain, Finance, Marketing and Organization Effectiveness, and she also worked a large part of her career on businesses outside of the United States. She was named Vice President, Human Resources, International in 2010, and then promoted to Senior Vice President, Human Resources Operations in September 2013. She was named to her present position in September 2014. Prior to joining General Mills, she held sales and management roles with Jenny Craig International.

Jerald A. Young, age 59, is Vice President, Controller. Mr. Young joined General Mills in 2001 from The Pillsbury Company. He was appointed Vice President of Finance for the Bakeries and Foodservice Division while at Pillsbury in 2000. Mr. Young was subsequently appointed Vice President Internal Audit in 2005 and Vice President, Supply Chain in 2008. He was named to his present position in August 2011.

WEBSITE ACCESS

Our website is www.GeneralMills.com. We make available, free of charge in the Investors portion of this website, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (1934 Act) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). Reports of beneficial ownership filed pursuant to Section 16(a) of the 1934 Act are also available on our website.

ITEM 1A Risk Factors

Our business is subject to various risks and uncertainties. Any of the risks described below could materially, adversely affect our business, financial condition, and results of operations.

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The food categories in which we participate are very competitive, and if we are not able to compete effectively, our results of operations could be adversely affected.

The food categories in which we participate are very competitive. Our principal competitors in these categories all have substantial financial, marketing, and other resources. In most product categories, we compete not only with other widely advertised branded products, but also with regional brands and with generic and private label products that are generally sold at lower prices. Competition in our product categories is based on product innovation, product quality, price, brand recognition and loyalty, effectiveness of marketing, promotional activity, and the ability to identify and satisfy consumer preferences. If our large competitors were to seek an advantage through pricing or promotional changes, we could choose to do the same, which could adversely affect our margins and profitability. If we did not do the same, our revenues and market share could be adversely affected. Our market share and revenue growth could also be adversely impacted if we are not successful in introducing innovative products in response to changing consumer demands or by new product introductions of our competitors. If we are unable to build and sustain brand equity by offering recognizably superior product quality, we may be unable to maintain premium pricing over generic and private label products.

We may be unable to maintain our profit margins in the face of a consolidating retail environment.

There has been significant consolidation in the grocery industry, resulting in customers with increased purchasing power. In addition, large retail customers may seek to use their position to improve their profitability through improved efficiency, lower pricing, increased reliance on their own brand name products, increased emphasis on generic and other economy brands, and increased promotional programs. If we are unable to use our scale, marketing expertise, product innovation, knowledge of consumers needs, and category leadership positions to respond to these demands, our profitability and volume growth could be negatively impacted. In addition, the loss of any large customer for an extended length of time could adversely affect our sales and profits. In fiscal 2016, Wal-Mart accounted for 20 percent of our consolidated net sales and 30 percent of net sales of our U.S. Retail segment. For more information on significant customers, please see Note 7 to the Consolidated Financial Statements in Item 8 of this report.

Price changes for the commodities we depend on for raw materials, packaging, and energy may adversely affect our profitability.

The principal raw materials that we use are commodities that experience price volatility caused by external conditions such as weather, product scarcity, limited sources of supply, commodity market fluctuations, currency fluctuations, and changes in governmental agricultural and energy policies and regulations. Commodity price changes may result in unexpected increases in raw material, packaging, and energy costs. If we are unable to increase productivity to offset these increased costs or increase our prices, we may experience reduced margins and profitability. We do not fully hedge against changes in commodity prices, and the risk management procedures that we do use may not always work as we intend.

Volatility in the market value of derivatives we use to manage exposures to fluctuations in commodity prices will cause volatility in our gross margins and net earnings.

We utilize derivatives to manage price risk for some of our principal ingredient and energy costs, including grains (oats, wheat, and corn), oils (principally soybean), dairy products, natural gas, and diesel fuel. Changes in the values of these derivatives are recorded in earnings currently, resulting in volatility in both gross margin and net earnings. These gains and losses are reported in cost of sales in our Consolidated Statements of Earnings and in unallocated corporate items outside our segment operating results until we utilize the underlying input in our manufacturing process, at which time the gains and losses are reclassified to segment operating profit. We also record our grain inventories at fair value. We may experience volatile earnings as a result of these accounting treatments.

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If we are not efficient in our production, our profitability could suffer as a result of the highly competitive environment in which we operate.

Our future success and earnings growth depend in part on our ability to be efficient in the production and manufacture of our products in highly competitive markets. Gaining additional efficiencies may become more difficult over time. Our failure to reduce costs through productivity gains or by eliminating redundant costs resulting from acquisitions or divestitures could adversely affect our profitability and weaken our competitive position. Many productivity initiatives involve complex reorganization of manufacturing facilities and production lines. Such manufacturing realignment may result in the interruption of production, which may negatively impact product volume and margins. We are currently pursuing several multi-year restructuring and cost savings initiatives designed to increase our efficiency and reduce expenses. If we are unable to execute those initiatives as planned, we may not realize all or any of the anticipated benefits, which could adversely affect our business and results of operations.

Disruption of our supply chain could adversely affect our business.

Our ability to make, move, and sell products is critical to our success. Damage or disruption to raw material supplies or our manufacturing or distribution capabilities due to weather, including any potential effects of climate change, natural disaster, fire, terrorism, cyber-attack, pandemic, strikes, import restrictions, or other factors could impair our ability to manufacture or sell our products. Our suppliers policies and practices can damage our reputation and the quality and safety of our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, particularly when a product is sourced from a single supplier or location, could adversely affect our business and results of operations, as well as require additional resources to restore our supply chain.

Concerns with the safety and quality of food products could cause consumers to avoid certain food products or ingredients.

We could be adversely affected if consumers in our principal markets lose confidence in the safety and quality of certain food products or ingredients. Adverse publicity about these types of concerns, whether or not valid, may discourage consumers from buying our products or cause production and delivery disruptions.

If our food products become adulterated, misbranded, or mislabeled, we might need to recall those items and may experience product liability claims if consumers are injured.

We may need to recall some of our products if they become adulterated, misbranded, or mislabeled. A widespread product recall could result in significant losses due to the costs of a recall, the destruction of product inventory, and lost sales due to the unavailability of product for a period of time. We could also suffer losses from a significant product liability judgment against us. A significant product recall or product liability case could also result in adverse publicity, damage to our reputation, and a loss of consumer confidence in our food products, which could have an adverse effect on our business results and the value of our brands.

We may be unable to anticipate changes in consumer preferences and trends, which may result in decreased demand for our products.

Our success depends in part on our ability to anticipate the tastes and eating habits of consumers and to offer products that appeal to their preferences. Consumer preferences and category-level consumption may change from time to time and can be affected by a number of different trends and other factors. If we fail to anticipate, identify or react to these changes and trends, or to introduce new and improved products on a timely basis, we may experience reduced demand for our products, which would in turn cause our revenues and profitability to suffer. Similarly, demand for our products could be affected by consumer concerns regarding the health effects of ingredients such as sodium, trans fats, genetically modified organisms, sugar, processed wheat, or other product ingredients or attributes.

We may be unable to grow our market share or add products that are in faster growing and more profitable categories.

The food industry s growth potential is constrained by population growth. Our success depends in part on our ability to grow our business faster than populations are growing in the markets that we serve. One way to achieve that growth is to enhance our portfolio by adding innovative new products in faster growing and more profitable categories. Our future results will also depend on our ability to increase market share in our existing product categories. If we do not succeed in developing innovative products for new and existing categories, our growth may slow, which could adversely affect our profitability.

Economic downturns could limit consumer demand for our products.

The willingness of consumers to purchase our products depends in part on local economic conditions. In periods of economic uncertainty, consumers may purchase more generic, private label, and other economy brands and may forego certain purchases altogether. In those circumstances, we could experience a reduction in sales of higher margin products or a shift in our product mix to lower margin offerings. In addition, as a result of economic conditions or competitive actions, we may be unable to raise our prices sufficiently to protect margins. Consumers may also reduce the amount of food that they consume away from home at customers that purchase products from our Convenience Stores and Foodservice segment. Any of these events could have an adverse effect on our results of operations.

Our results may be negatively impacted if consumers do not maintain their favorable perception of our brands.

Maintaining and continually enhancing the value of our many iconic brands is critical to the success of our business. The value of our brands is based in large part on the degree to which consumers react and respond positively to these brands. Brand value could diminish significantly due to a number of factors, including consumer perception that we have acted in an irresponsible manner, adverse publicity about our products, our failure to maintain the quality of our products, the failure of our products to deliver consistently positive consumer experiences, concerns about food safety, or our products becoming unavailable to consumers. Consumer demand for our products may also be impacted by changes in the level of advertising or promotional support. The growing use of social and digital media by consumers, us, and third parties increases the speed and extent that information or misinformation and opinions can be shared. Negative posts or comments about us, our brands, or our products on social or digital media could seriously damage our brands and reputation. If we do not maintain the favorable perception of our brands, our business results could be negatively impacted.

Our international operations are subject to political and economic risks.

In fiscal 2016, 28 percent of our consolidated net sales were generated outside of the United States. We are accordingly subject to a number of risks relating to doing business internationally, any of which could significantly harm our business. These risks include:

- political and economic instability;
- exchange controls and currency exchange rates;
- nationalization of operations;
- compliance with anti-corruption regulations;
- foreign tax treaties and policies; and
- restriction on the transfer of funds to and from foreign countries, including potentially negative tax consequences.

Our financial performance on a U.S. dollar denominated basis is subject to fluctuations in currency exchange rates. These fluctuations could cause material variations in our results of operations. 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. From time to time, we enter into agreements that are intended to reduce the effects of our exposure to currency fluctuations, but these agreements may not be effective in significantly reducing our exposure.

New regulations or regulatory-based claims could adversely affect our business.

Our facilities and products are subject to many laws and regulations administered by the United States Department of Agriculture, the Federal Food and Drug Administration, the Occupational Safety and Health Administration, and other federal, state, local, and foreign governmental agencies relating to the production, packaging, labelling, storage, distribution, quality, and safety of food products and the health and safety of our employees. Our failure to comply with such laws and regulations could subject us to lawsuits, administrative penalties, and civil remedies, including fines, injunctions, and recalls of our products. We advertise our products and could be the target of claims relating to alleged false or deceptive advertising under federal, state, and foreign laws and regulations. We may also be subject to new laws or regulations restricting our right to advertise our products, including proposals to limit advertising to children. Changes in laws or regulations that impose additional regulatory requirements on us could increase our cost of doing business or restrict our actions, causing our results of operations to be adversely affected.

We are subject to various federal, state, local, and foreign environmental laws and regulations. Our failure to comply with environmental laws and regulations could subject us to lawsuits, administrative penalties, and civil remedies. We are currently party to a variety of environmental remediation obligations. Due to regulatory complexities, uncertainties inherent in litigation, and the risk of unidentified contaminants on current and former properties of ours, the potential exists for remediation, liability, indemnification, and compliance costs to differ from our estimates. We cannot guarantee that our costs in relation to these matters, or compliance with environmental laws in general, will not exceed our established liabilities or otherwise have an adverse effect on our business and results of operations.

We have a substantial amount of indebtedness, which could limit financing and other options and in some cases adversely affect our ability to pay dividends.

As of May 29, 2016, we had total debt, redeemable interests, and noncontrolling interests of $9.6 billion. The agreements under which we have issued indebtedness do not prevent us from incurring additional unsecured indebtedness in the future. Our level of indebtedness may limit our:

- ability to obtain additional financing for working capital, capital expenditures, or general corporate purposes, particularly if the ratings assigned to our debt securities by rating organizations were revised downward; and
- flexibility to adjust to changing business and market conditions and may make us more vulnerable to a downturn in general economic conditions.

There are various financial covenants and other restrictions in our debt instruments and noncontrolling interests. If we fail to comply with any of these requirements, the related indebtedness (and other unrelated indebtedness) could become due and payable prior to its stated maturity and our ability to obtain additional or alternative financing may also be adversely affected.

Our ability to make scheduled payments on or to refinance our debt and other obligations will depend on our operating and financial performance, which in turn is subject to prevailing economic conditions and to financial, business, and other factors beyond our control.

Global capital and credit market issues could negatively affect our liquidity, increase our costs of borrowing, and disrupt the operations of our suppliers and customers.

We depend on stable, liquid, and well-functioning capital and credit markets to fund our operations. Although we believe that our operating cash flows, financial assets, access to capital and credit markets, and revolving credit agreements will permit us to meet our financing needs for the foreseeable future, there can be no assurance that future volatility or disruption in the capital and credit markets will not impair our liquidity or increase our costs of borrowing. We also utilize interest rate derivatives to reduce the volatility of our financing costs. If we are not effective in hedging this volatility, we may experience an increase in our costs of borrowing. Our business could also be negatively impacted if our suppliers or customers experience disruptions resulting from tighter capital and credit markets or a slowdown in the general economy.

Volatility in the securities markets, interest rates, and other factors could substantially increase our defined benefit pension, other postretirement benefit, and postemployment benefit costs.

We sponsor a number of defined benefit plans for employees in the United States, Canada, and various foreign locations, including defined benefit pension, retiree health and welfare, severance, and other postemployment plans. Our major defined benefit pension plans are funded with trust assets invested in a globally diversified portfolio of securities and other investments. Changes in interest rates, mortality rates, health care costs, early retirement rates, investment returns, and the market value of plan assets can affect the funded status of our defined benefit plans and cause volatility in the net periodic benefit cost and future funding requirements of the plans. A significant increase in our obligations or future funding requirements could have a negative impact on our results of operations and cash flows from operations.

Our business operations could be disrupted if our information technology systems fail to perform adequately or are breached.

Information technology serves an important role in the efficient and effective operation of our business. We rely on information technology networks and systems, including the internet, to process, transmit, and store electronic information to manage a variety of business processes and to comply with regulatory, legal, and tax requirements. Our information technology systems and infrastructure are critical to effectively manage our key business processes including digital marketing, order entry and fulfillment, supply chain management, finance, administration, and other business processes. These technologies enable internal and external communication among our locations, employees, suppliers, customers, and others and include the receipt and storage of personal information about our employees, consumers, and proprietary business information. Our information technology systems, some of which are dependent on services provided by third parties, may be vulnerable to damage, interruption, or shutdown due to any number of causes such as catastrophic events, natural disasters, fires, power outages, systems failures, telecommunications failures, security breaches, computer viruses, hackers, employee error or malfeasance, and other causes. Increased cyber-security threats pose a potential risk to the security and viability of our information technology systems, as well as the confidentiality, integrity, and availability of the data stored on those systems. The failure of our information technology systems to perform as we anticipate could disrupt our business and result in transaction errors, processing inefficiencies, data loss, legal claims or proceedings, regulatory penalties, and the loss of sales and customers. Any interruption of our information technology systems could have operational, reputational, legal, and financial impacts that may have a material adverse effect on our business.

A change in the assumptions regarding the future performance of our businesses or a different weighted-average cost of capital used to value our reporting units or our indefinite-lived intangible assets could negatively affect our consolidated results of operations and net worth.

As of May 29, 2016, we had $12.9 billion of goodwill and indefinite-lived intangible assets. Goodwill for each of our reporting units is tested for impairment annually and whenever events or changes in circumstances indicate that impairment may have occurred. We compare the carrying value of the net assets of a reporting unit, including goodwill, to the fair value of the unit. If the fair value of the net assets of the reporting unit is less than the net assets including goodwill, impairment has occurred. Our estimates of fair value are determined based on a discounted cash flow model. Growth rates for sales and profits are determined using inputs from our long-range planning process. We also make estimates of discount rates, perpetuity growth assumptions, market comparables, and other factors. While we currently believe that our goodwill is not impaired, different assumptions regarding the future performance of our businesses could result in significant impairment losses.

We evaluate the useful lives of our intangible assets, primarily intangible assets associated with the *Pillsbury*, *Totino s*, *Progresso*, *Yoplait*, *Old El Paso*, *Yoki*, *Häagen-Dazs*, and *Annie s* brands, to determine if they are finite or indefinite-lived. Reaching a determination on useful life requires significant judgments and assumptions regarding the future effects of obsolescence, demand, competition, other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels), the level of required maintenance expenditures, and the expected lives of other related groups of assets.

Our indefinite-lived intangible assets are also tested for impairment annually and whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Our estimate of the fair value of the brands is based on a discounted cash flow model using inputs including projected revenues from our long-range plan, assumed royalty rates which could be payable if we did not own the brands, and a discount rate. Our *Uncle Toby s* and *Mountain High* brands have experienced declining business performance. Our strategies for fiscal 2017 and fiscal 2018 will focus our growth investments on our brands and platforms with the strongest profitable growth potential. As a result, certain parts of our U.S. Retail segment could experience reduced future sales projections. We

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performed a sensitivity analysis for certain brand intangible assets and determined that, while not impaired as of May 29, 2016, the *Progresso* and *Food Should Taste Good* brands had risk of decreasing coverage. We will continue to monitor these businesses. For further information on goodwill and intangible assets, please refer to Note 6 to the Consolidated Financial Statements in Item 8 of this report.

Our failure to successfully integrate acquisitions into our existing operations could adversely affect our financial results.

From time to time, we evaluate potential acquisitions or joint ventures that would further our strategic objectives. Our success depends, in part, upon our ability to integrate acquired and existing operations. If we are unable to successfully integrate acquisitions, our financial results could suffer. Additional potential risks associated with acquisitions include additional debt leverage, the loss of key employees and customers of the acquired business, the assumption of unknown liabilities, the inherent risk associated with entering a geographic area or line of business in which we have no or limited prior experience, failure to achieve anticipated synergies, and the impairment of goodwill or other acquisition-related intangible assets.

ITEM 1B Unresolved Staff Comments

None.

ITEM 2 Properties

We own our principal executive offices and main research facilities, which are located in the Minneapolis, Minnesota metropolitan area. We operate numerous manufacturing facilities and maintain many sales and administrative offices, warehouses, and distribution centers around the world.

As of May 29, 2016, we operated 59 facilities for the production of a wide variety of food products. Of these facilities, 30 are located in the United States (1 of which is leased), 4 in the Greater China region, 2 in the Asia/Middle East/Africa Region (1 of which is leased), 4 in Canada (2 of which are leased), 10 in Europe/Australia, and 9 in Latin America and Mexico. The following is a list of the locations of our principal production facilities, which primarily support the segment noted:

U.S. Retail

Carson, California	Reed City, Michigan	Buffalo, New York
Covington, Georgia	Fridley, Minnesota	Cincinnati, Ohio
Belvidere, Illinois	Hannibal, Missouri	Wellston, Ohio
Cedar Rapids, Iowa	Vineland, New Jersey	Murfreesboro, Tennessee
Irapuato, Mexico	Albuquerque, New Mexico	Milwaukee, Wisconsin

International

Mt. Waverly, Australia	Pouso Alegre, Brazil	Labatut, France
Rooty Hill, Australia	St. Hyacinthe, Canada	Le Mans, France

Sao Bernardo do Campo, Brazil	Guangzhou, China	Moneteau, France
Cambara, Brazil	Kunshan, China	Vienne, France
Marilia, Brazil	Sanhe, China	Anseong-si, Korea
Nova Prata, Brazil	Shanghai, China	San Adrian, Spain
Paranavai, Brazil	Arras, France	

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Convenience Stores and Foodservice

Chanhassen, Minnesota	Joplin, Missouri	Martel, Ohio

We operate numerous grain elevators in the United States in support of our domestic manufacturing activities. We also utilize approximately 12 million square feet of warehouse and distribution space, nearly all of which is leased, that primarily supports our U.S. Retail segment. We own and lease a number of dedicated sales and administrative offices around the world, totaling approximately 3 million square feet. We have additional warehouse, distribution, and office space in our plant locations.

As part of our Häagen-Dazs business in our International segment, we operate 530 (all leased) and franchise 344 branded ice cream parlors in various countries around the world, all outside of the United States and Canada.

ITEM 3 Legal Proceedings

We are the subject of various pending or threatened legal actions in the ordinary course of our business. All such matters are subject to many uncertainties and outcomes that are not predictable with assurance. In our opinion, there were no claims or litigation pending as of May 29, 2016, that were reasonably likely to have a material adverse effect on our consolidated financial position or results of operations. See the information contained under the section entitled Environmental Matters in Item 1 of this report for a discussion of environmental matters in which we are involved.

ITEM 4 Mine Safety Disclosures

None.

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PART II

ITEM 5 Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the New York Stock Exchange under the symbol GIS. On June 13, 2016, there were approximately 32,000 record holders of our common stock. Information regarding the market prices for our common stock and dividend payments for the two most recent fiscal years is set forth in Note 18 to the Consolidated Financial Statements in Item 8 of this report.

The following table sets forth information with respect to shares of our common stock that we purchased during the fiscal quarter ended May 29, 2016:

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)
February 29, 2016- April 3, 2016	1,930	$ 59.37	1,930	75,871,561
April 4, 2016- May 1, 2016	13,035	64.96	13,035	75,858,526
May 2, 2016- May 29, 2016	63,197	61.75	63,197	75,795,329
Total	78,162	$ 62.23	78,162	75,795,329

(a) The total number of shares purchased includes shares of common stock 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 Selected Financial Data

The following table sets forth selected financial data for each of the fiscal years in the five-year period ended May 29, 2016:

			Fiscal Year		
n Millions, Except Per Share Data, Percentages and Ratios	**2016**	2015 (a)	2014	2013	2012
Operating data:					
let sales	**$ 16,563.1**	$ 17,630.3	$ 17,909.6	$ 17,774.1	$ 16,657.9
Gross margin (b)	**5,829.5**	5,949.2	6,369.8	6,423.9	6,044.7
elling, general, and administrative expenses	**3,118.9**	3,328.0	3,474.3	3,552.3	3,380.7
Operating profit	**2,707.4**	2,077.3	2,957.4	2,851.8	2,562.4
otal segment operating profit (c)	**2,999.5**	3,035.0	3,153.9	3,222.9	3,011.6
let earnings attributable to General Mills	**1,697.4**	1,221.3	1,824.4	1,855.2	1,567.3
dvertising and media expense	**754.4**	823.1	869.5	895.0	913.7
esearch and development expense	**222.1**	229.4	243.6	237.9	245.4
verage shares outstanding:					
Diluted	**611.9**	618.8	645.7	665.6	666.7
arnings per share:					
Diluted	**$ 2.77**	$ 1.97	$ 2.83	$ 2.79	$ 2.35
Diluted, excluding certain items affecting comparability (c)	**$ 2.92**	$ 2.86	$ 2.82	$ 2.72	$ 2.56
Operating ratios:					
Gross margin as a percentage of net sales	**35.2%**	33.7%	35.6%	36.1%	36.3%
elling, general, and administrative expenses as a percentage of net sales	**18.8%**	18.9%	19.4%	20.0%	20.3%
Operating profit as a percentage of net sales	**16.3%**	11.8%	16.5%	16.0%	15.4%
djusted operating profit as a percentage of net sales (b) (c)	**16.8%**	15.9%	16.2%	16.3%	16.7%
otal segment operating profit as a percentage of net sales (c)	**18.1%**	17.2%	17.6%	18.1%	18.1%
ffective income tax rate	**31.4%**	33.3%	33.3%	29.2%	32.1%
eturn on average total capital (b)	**12.9%**	9.1%	12.5%	13.4%	12.8%
djusted return on average total capital (b) (c)	**11.3%**	11.2%	11.6%	12.0%	12.7%
Balance sheet data:					
and, buildings, and equipment	**$ 3,743.6**	$ 3,783.3	$ 3,941.9	$ 3,878.1	$ 3,652.7
otal assets	**21,712.3**	21,832.0	23,044.7	22,505.7	21,014.8
ong-term debt, excluding current portion	**7,057.7**	7,575.3	6,396.6	5,901.8	6,139.5
otal debt (b)	**8,430.9**	9,191.5	8,758.9	7,944.8	7,407.2
Cash flow data:					
let cash provided by operating activities	**$ 2,629.8**	$ 2,542.8	$ 2,541.0	$ 2,926.0	$ 2,407.2
apital expenditures	**729.3**	712.4	663.5	613.9	675.9
ree cash flow (b) (c)	**1,900.5**	1,830.4	1,877.5	2,312.1	1,731.3
ixed charge coverage ratio (b)	**7.40**	5.54	8.04	7.62	6.26
Operating cash flow to debt ratio (b)	**31.2%**	27.7%	29.0%	36.8%	32.5%
hare data:					
ow stock price	**$ 54.12**	$ 48.86	$ 46.86	$ 37.55	$ 34.95
ligh stock price	**65.36**	57.14	54.40	50.93	41.05

Closing stock price	**62.87**	56.15	53.81	48.98	39.08
Cash dividends per common share	**1.78**	1.67	1.55	1.32	1.22

(a) Fiscal 2015 was a 53-week year; all other fiscal years were 52 weeks.
(b) See Glossary in Item 8 of this report for definition.
(c) See Non-GAAP Measures in Item 7 of this report for our discussion of this measure not defined by generally accepted accounting principles.

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ITEM 7 Management s Discussion and Analysis of Financial Condition and Results of Operations
EXECUTIVE OVERVIEW

We are a global consumer foods company. We develop distinctive value-added food products and market them under unique brand names. We work continuously to improve our core products and to create new products that meet consumers evolving needs and preferences. In addition, we build the equity of our brands over time with strong consumer-directed marketing, innovative new products, and effective merchandising. We believe our brand-building strategy is the key to winning and sustaining leading share positions in markets around the globe.

Our fundamental financial goal is to generate superior returns for our shareholders over the long term. We believe that increases in net sales, segment operating profit, earnings per share (EPS), free cash flow conversion, cash return to shareholders, and return on average total capital are key drivers of financial performance for our business.

Our long-term growth objectives are to consistently deliver:

- low single-digit annual growth in net sales;
- mid single-digit annual growth in total segment operating profit;
- high single-digit annual growth in diluted EPS excluding certain items affecting comparability;
- improvement in adjusted return on average total capital;
- free cash flow conversion averaging above 95 percent of adjusted net earnings after tax; and
- cash return to shareholders averaging above 90 percent of free cash flow, including an attractive dividend yield.

We believe that this financial performance should result in long-term value creation for shareholders.

Fiscal 2016 was an important step toward returning to our long-term growth objectives. Our U.S. Retail segment improved its operating profit performance in fiscal 2016, excluding the impact of acquisitions and divestitures, primarily the North American Green Giant business (Green Giant) divestiture and 6 incremental months of results from the acquisition of Annie s, Inc. (Annie s). Net sales as reported declined 5 percentage points in fiscal 2016, which included 2 percentage points of decline from the net impact of Green Giant and Annie s and 1 percentage point of decline from a 53rd week in fiscal 2015. While net sales growth did not meet our expectations, operating profit increased 1 percent, despite the 53rd week in fiscal 2015 and the net unfavorable impact of the Green Giant divestiture and Annie s acquisition. Operating profit for the Convenience Stores and Foodservice segment increased 7 percent, driven primarily by our 6 priority product platforms. Operating results for the International segment had good growth in developed markets that was tempered by slowdowns in developing markets. International net sales as reported declined 10 percent, including 1 percentage point of decline from the divestiture of Green Giant, our Venezuela business, and our foodservice business in Argentina, but grew 3 percent on a constant-currency basis. International segment operating profit declined 15 percent and was impacted by 12 percentage points of unfavorable foreign currency exchange and slowing economic growth in China and Brazil, as well as the effect of divestitures.

Our consolidated net sales for fiscal 2016 declined 6 percent to $16.6 billion, primarily driven by unfavorable foreign exchange, a 53rd week in fiscal 2015, and the net impact of acquisitions and divestitures. On a constant-currency basis, net sales decreased 2 percent. Operating profit of $2.7 billion increased 30 percent. Total segment operating profit of $3.0 billion declined 1 percent and grew 1 percent on a constant-currency basis. Diluted EPS increased 41 percent to $2.77 per share. Adjusted diluted EPS, which excludes certain items affecting comparability of results, rose 2 percent to $2.92 per share and increased 5 percent on a constant-currency basis. Our return on average total capital was 12.9 percent, and return on adjusted average total capital increased 10 basis points to 11.3 percent. (See the Non-GAAP Measures section below for discussion of total segment operating profit, adjusted diluted EPS, constant-currency net sales growth rates, constant-currency International segment net sales growth rate, constant-currency total segment operating profit growth rate, constant-currency adjusted diluted EPS growth rate, and adjusted return on average total capital, which are not defined by generally accepted accounting principles (GAAP)).

Net cash provided by operations totaled $2.6 billion in fiscal 2016 at a conversion rate of 151 percent of net earnings, including earnings attributable to redeemable and noncontrolling interests. This cash generation supported capital investments totaling $729 million, and our resulting free cash flow was $1.9 billion at a conversion rate of

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104 percent of adjusted net earnings, including earnings attributable to redeemable and noncontrolling interests. We also returned significant cash to shareholders through a 7 percent dividend increase and share repurchases totaling $607 million. Total cash returned to shareholders represented 79 percent of our free cash flow (see the Non-GAAP Measures section below for a description of our use of measures not defined by GAAP).

We recorded the following achievements related to our other key operating objectives for fiscal 2016:

- We took steps to reshape our business portfolio to drive future growth with the divestiture of our North American Green Giant vegetable business and two smaller divestures, the Venezuela canned meat business and the foodservice dough business in Argentina. We also acquired EPIC Provisions LLC (Epic), broadening our product offerings in our U.S. natural and organic portfolio to include meat snacks, and we entered the growing Brazilian yogurt market through the acquisition of Laticinios Carolina Ltda. (Carolina).

- We generated strong levels of supply chain productivity savings in fiscal 2016 through our ongoing Holistic Margin Management (HMM) efforts. We also continued to execute our cost savings and organizational initiatives during the fiscal year. We expanded Project Century, an initiative to streamline our North American distribution and manufacturing network, to our International segment supply chain. We also initiated Project Compass, with a focus on increasing the agility and effectiveness of our International segment. Finally, we continued to realize benefits from Project Catalyst, a fiscal 2015 restructuring plan to increase organizational effectiveness and reduce overhead expense. In aggregate, the initiatives taken in fiscal 2015 and 2016 generated almost $350 million in cost savings during fiscal 2016.

A detailed review of our fiscal 2016 performance appears below in the section titled Fiscal 2016 Consolidated Results of Operations.

With strong savings in Fiscal 2016 and visibility to further savings over the next two years, we now expect our previously announced organizational restructuring and cost-reduction initiatives, including Projects Century, Catalyst, and Compass, as well as administrative cost reductions, to generate total annual savings of $600 million by fiscal 2018. We are also undertaking further efforts to prioritize investments, reduce complexity, and streamline our operations to drive profitable sales growth. As a result, we are increasing and accelerating our adjusted operating profit margin expansion target. We expect to achieve an adjusted operating profit margin of 20 percent by fiscal 2018, an increase of 400 basis points over fiscal 2015 levels. Key drivers of margin expansion over the next two years will include:

- Strong levels of HMM productivity gains;
- Continuing savings from previously announced cost-reduction initiatives;
- Increased efficiency and prioritization of commercial investments, including trade and consumer spending;
- Continuing focus on complexity reduction through SKU optimization;

- Further supply chain optimization; and
- Continued expansion of zero-based budgeting across the business.

We will focus our fiscal 2017 and fiscal 2018 growth investments on our brands and platforms with the strongest profitable growth potential, including:

- In the U.S. Retail segment   Cereal, snack bars, the natural and organic portfolio, hot snacks, Mexican products, and yogurt;
- Our International segment;

In the Convenience Stores and Foodservice segment Cereal, yogurt, snacks, frozen meals, biscuits, and baking mixes the segment s current Focus 6 platforms.

Net sales for these growth businesses, which comprise 75 percent of total company net sales and a similar proportion of operating profit, are expected to grow at a low single-digit organic rate in fiscal 2017. In our foundation businesses, which comprise the remainder of the portfolio, we will only pursue selective growth investments and will focus on reducing SKU complexity, optimizing commercial investments, and prioritizing profitable volume while making selective Consumer First investments. We expect organic net sales to decline mid single-digits for these businesses in fiscal 2017. With this focused approach, we expect:

Fiscal 2017 organic net sales growth ranging from flat to down 2 percent compared to fiscal 2016, but deliver a 6 to 8 percent increase in constant-currency total segment operating profit.

Fiscal 2017 adjusted operating profit margin to increase by approximately 150 basis points; and

Constant-currency adjusted diluted EPS to grow 6 to 8 percent from the base of $2.92 earned in fiscal 2016.

Our fiscal 2017 plans call for continued strong cash returns to shareholders. The current annualized dividend rate of $1.92 per share is up 8 percent from the annual dividend paid in fiscal 2016. Share repurchases in fiscal 2017 are expected to result in a net reduction in average diluted shares outstanding of approximately 1 to 2 percent.

The foregoing non-GAAP forward-looking financial measures are not reconcilable to the equivalent GAAP measure because we cannot accurately predict the excluded variables that may impact these measures.

Certain terms used throughout this report are defined in a glossary in Item 8 of this report.

FISCAL 2016 CONSOLIDATED RESULTS OF OPERATIONS

Fiscal 2016 had 52 weeks compared to 53 weeks in fiscal 2015. Included in fiscal 2016 is an additional month of results from Annie s and Yoplait SAS (please refer to Note 1 to the Consolidated Financial Statements in Item 8 of this report).

Fiscal 2016 net sales declined 6 percent to $16,563 million and decreased 2 percent on a constant-currency basis. **Operating profit** of $2,707 million was 30 percent higher than fiscal 2015. Total segment operating profit was $3,000 million, 1 percent lower than fiscal 2015 and 1 percent higher on a constant-currency basis. In fiscal 2016, **net earnings attributable to General Mills** were $1,697 million, up 39 percent from $1,221 million in fiscal 2015, and we reported **diluted EPS** of $2.77 in fiscal 2016, up 41 percent from $1.97 in fiscal 2015. Fiscal 2016 results include restructuring-related charges, a net gain from divestitures, and gains from the mark-to-market valuation of certain commodity positions and grain inventories. Fiscal 2015 results include restructuring-related charges, an indefinite-lived intangible asset impairment charge, tax impacts from the repatriation of historical foreign earnings, losses from the mark-to-market valuation of certain commodity positions and grain inventories, integration costs resulting from the acquisition of Annie s, and the impact of Venezuela currency devaluation. Diluted EPS excluding these items affecting comparability totaled $2.92 in fiscal 2016, up 2 percent from $2.86 in fiscal 2015. Diluted EPS excluding certain items affecting comparability on a constant-currency basis increased 5 percent compared to fiscal 2015 (see the Non-GAAP Measures section below for a description of our use of measures not defined by GAAP).

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Net sales declined 6 percent to $16,563 million in fiscal 2016 from $17,630 in fiscal 2015. The components of net sales growth are shown in the following table:

	Fiscal 2016 vs. 2015
Contributions from volume growth (a)	**(3) pts**
Net price realization and mix	**1 pt**
Foreign currency exchange	**(4) pts**
Net sales growth	**(6) pts**

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

Net sales growth for fiscal 2016 included a 1 percent decrease from acquisitions and divestitures, primarily Green Giant and Annie s, reflecting 2 percentage points of decline from volume (please refer to Note 3 to the Consolidated Financial Statements in Item 8 of this report). The 53rd week in fiscal 2015 contributed approximately 1 percentage point of net sales decline in fiscal 2016, reflecting 1 percentage point of decline from volume.

Cost of sales decreased $948 million in fiscal 2016 to $10,734 million. In fiscal 2016, product mix drove a $486 million decrease in cost of sales and lower volume drove a $369 million decrease. We recorded a $63 million net decrease in cost of sales related to mark-to-market valuation of certain commodity positions and grain inventories as described in Note 7 to the Consolidated Financial Statements in Item 8 of this report, compared to a net increase of $90 million in fiscal 2015. In fiscal 2016, we recorded $78 million of restructuring charges in cost of sales compared to $60 million in fiscal 2015. We also recorded a $3 million foreign exchange loss in cost of sales in fiscal 2015 related to Venezuela currency devaluation.

We also expect to incur approximately $109 million of restructuring initiative project-related cash costs and recorded $58 million of these costs in cost of sales in fiscal 2016 compared to $13 million in fiscal 2015 (please refer to Note 4 to the Consolidated Financial Statements in Item 8 of this report).

Gross margin declined 2 percent in fiscal 2016 versus fiscal 2015. Gross margin as a percent of net sales of 35 percent increased 150 basis points compared to fiscal 2015.

Selling, general and administrative (SG&A) expenses decreased $209 million in fiscal 2016 versus fiscal 2015 primarily due to an 8 percent decrease in advertising and media expense, and savings from Project Catalyst, Project Compass, and our other cost-management initiatives (please refer to Note 4 to the Consolidated Financial Statements in Item 8 of this report). In fiscal 2015, we recorded a $5 million charge in SG&A expenses related to Venezuela currency devaluation and $16 million of integration costs related to our acquisition of Annie s. SG&A expenses as a percent of net sales decreased 10 basis points compared to fiscal 2015.

During fiscal 2016, we recorded an $148 million **divestitures gain (net)** from the sale of Green Giant, our subsidiary in Venezuela, and our foodservice business in Argentina (please refer to Note 3 of the Consolidated Financial Statements in Item 8 of this report).

Restructuring, impairment, and other exit costs totaled $151 million in fiscal 2016 compared to $544 million in fiscal 2015.

In fiscal 2015, we made a strategic decision to redirect certain resources supporting our Green Giant business in our U.S. Retail segment to other businesses within the segment. As a result, we recorded a $260 million impairment charge in fiscal 2015 related to the *Green Giant* brand intangible asset.

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Restructuring charges recorded in restructuring, impairment, and other exit costs were $151 million in fiscal 2016 compared to $284 million in fiscal 2015. Total charges associated with our restructuring initiatives recognized in fiscal 2016 and 2015 consisted of the following:

	As Reported				Estimated				
In Millions	**Fiscal 2016**		**Fiscal 2015**		**Future**		**Total**		
	Charge	**Cash**	**Charge**	**Cash**	**Charge**	**Cash**	**Charge**	**Cash**	**Savings (b)**
Compass	$ 54.7	$ 36.1	$	$	$ 5	$ 24	$ 60	$ 60	
Total Century (a)	182.6	34.1	181.8	12.0	75	120	439	166	
Catalyst	(7.5)	47.8	148.4	45.0		25	141	118	
Combination of certain operational facilities		4.5	13.9	6.5	1	2	15	12	
Other		0.1	(0.6)	0.1					
Total restructuring charges (a)	229.8	122.6	343.5	63.6	81	171	655	356	
Project-related costs	57.5	54.5	13.2	9.7	38	45	109	109	
Restructuring charges and project-related costs	$ 287.3	$ 177.1	$ 356.7	$ 73.3	$ 119	$ 216	$ 764	$ 465	
Future cumulative annual savings									$ 600

(a) Includes restructuring charges recorded in cost of sales of $78.4 million in fiscal 2016 and $59.6 million in fiscal 2015.
(b) Cumulative annual savings estimated by fiscal 2018. Includes savings from SG&A cost reduction projects.

Please refer to Note 4 to the Consolidated Financial Statements in Item 8 of this report for more information regarding our restructuring activities.

Interest, net for fiscal 2016 totaled $304 million, $12 million lower than fiscal 2015, primarily driven by lower average debt balances, partially offset by changes in the mix of debt.

Our consolidated **effective tax rate** for fiscal 2016 was 31.4 percent compared to 33.3 percent in fiscal 2015. The 1.9 percentage point decrease was primarily due to the unfavorable impact of our repatriation of historical foreign earnings in fiscal 2015, partially offset by non-deductible expenses related to the Green Giant divestiture in fiscal 2016. Our effective tax rate excluding certain items affecting comparability was 29.8 percent in fiscal 2016 compared to 30.5 percent in fiscal 2015 (see the Non-GAAP Measures section below for a description of our use of measures not defined by GAAP).

After-tax earnings from joint ventures for fiscal 2016 increased to $88 million compared to $84 million in fiscal 2015 primarily driven by favorable input costs in fiscal 2016, favorable product mix for Häagen-Dazs Japan, Inc. (HDJ), and lapping an impairment charge of $3 million at Cereal Partners Worldwide (CPW) in South Africa in fiscal 2015, partially offset by unfavorable foreign currency. On a constant-currency basis, after-tax earnings from joint ventures increased 12 percent (see the Non-GAAP Measures section below for a description of our use of these measures not defined by GAAP). The change in net sales for each joint venture is set forth in the following table:

	As Reported Fiscal 2016 vs. 2015	Constant-Currency Basis Fiscal 2016 vs. 2015
CPW	**(12)%**	**Flat**
HDJ	**Flat**	**5**
Joint Ventures	**(10)%**	**1%**

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The components of our joint ventures net sales growth are shown in the following table:

Fiscal 2016 vs. Fiscal 2015	CPW	HDJ
Contributions from volume growth (a)	Flat	11 pts
Net price realization and mix	Flat	(6) pts
Foreign currency exchange	(12) pts	(5) pts
Net sales growth	(12) pts	Flat

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

Average diluted shares outstanding decreased by 7 million in fiscal 2016 from fiscal 2015 due to share repurchases, partially offset by option exercises.

FISCAL 2015 CONSOLIDATED RESULTS OF OPERATIONS

Fiscal 2015 had 53 weeks compared to 52 weeks in fiscal 2014.

Fiscal 2015 net sales declined 2 percent to $17,630 million and increased 1 percent on a constant-currency basis. **Operating profit** of $2,077 million was 30 percent lower than fiscal 2014. Total segment operating profit was $3,035 million, 4 percent lower than fiscal 2014 and 2 percent lower on a constant-currency basis. In fiscal 2015, **net earnings attributable to General Mills** were $1,221 million, down 33 percent from $1,824 million in fiscal 2014, and we reported **diluted EPS** of $1.97 in fiscal 2015, down 30 percent from $2.83 in fiscal 2014. Fiscal 2015 results include restructuring-related charges, an indefinite-lived intangible asset impairment charge, tax impacts from the repatriation of historical foreign earnings, losses from the mark-to-market valuation of certain commodity positions and grain inventories, integration costs resulting from the acquisition of Annie s, and the impact of Venezuela currency devaluation. Fiscal 2014 results include the impact of Venezuela currency devaluation, a gain on the divestiture of certain grain elevators, losses from the mark-to-market valuation of certain commodity positions and grain inventories, and restructuring charges related to our fiscal 2012 productivity and cost savings plan. Diluted EPS excluding these items affecting comparability totaled $2.86 in fiscal 2015, up 1 percent from $2.82 in fiscal 2014 (see the Non-GAAP Measures section below for a description of our use of these measures not defined by GAAP).

Net sales declined 2 percent to $17,630 million in fiscal 2015 from $17,910 in fiscal 2014. The components of net sales growth are shown in the following table:

	Fiscal 2015 vs. 2014
Contributions from volume growth (a)	(1) pt
Net price realization and mix	2 pts
Foreign currency exchange	(3) pts
Net sales growth	(2) pts

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

The 53rd week in fiscal 2015 contributed approximately 1 percentage point of net sales growth, reflecting 1 percentage point of growth from volume.

Cost of sales increased $141 million in fiscal 2015 to $11,681 million. In fiscal 2015, we recorded a $90 million net increase in cost of sales related to mark-to-market valuation of certain commodity positions and grain inventories, compared to a net decrease of $49 million in fiscal 2014. In fiscal 2015, we recorded $60 million of restructuring charges in cost of sales. Product mix drove a $17 million increase in cost of sales. We also recorded a $3 million foreign exchange loss in fiscal 2015 related to Venezuela currency devaluation compared to a $23 million loss in fiscal 2014. Lower volume drove a $68 million decrease in cost of sales in fiscal 2015. We recorded $13 million of restructuring initiative project-related cash costs in cost of sales in fiscal 2015.

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Gross margin declined 7 percent in fiscal 2015 versus fiscal 2014. Gross margin as a percent of net sales of 34 percent decreased 190 basis points compared to fiscal 2014.

SG&A expenses decreased $146 million in fiscal 2015 versus fiscal 2014 primarily due to a 5 percent decrease in advertising and media expense, and savings from Project Catalyst and our other cost management initiatives. In fiscal 2015, we recorded a $5 million charge in SG&A expenses related to Venezuela currency devaluation compared to a $39 million charge in fiscal 2014. In addition, we recorded $16 million of integration costs in SG&A expenses in fiscal 2015 related to our acquisition of Annie s. SG&A expenses as a percent of net sales decreased 50 basis points compared to fiscal 2014.

There were no divestitures in fiscal 2015. During fiscal 2014, we recorded a **divestiture gain** of $66 million related to the sale of certain grain elevators in our U.S. Retail segment.

Restructuring, impairment, and other exit costs totaled $544 million in fiscal 2015 compared to $4 million in fiscal 2014.

In fiscal 2015, we made a strategic decision to redirect certain resources supporting our Green Giant business in our U.S. Retail segment to other businesses within the segment. As a result, we recorded a $260 million impairment charge in fiscal 2015 related to the *Green Giant* brand intangible asset.

Restructuring charges recorded in restructuring, impairment, and other exit costs were $284 million in fiscal 2015 compared to $4 million in fiscal 2014. Total charges associated with our restructuring initiatives recognized in fiscal 2015 and 2014 consisted of the following:

	As Reported			
In Millions	**Fiscal 2015**		**Fiscal 2014**	
	Charge	**Cash**	**Charge**	**Cash**
Total Century (a)	$ 181.8	$ 12.0	$	$
Catalyst	148.4	45.0		
International	13.9	6.5	1.0	6.0
Other	(0.6)	0.1	2.6	16.4
Total restructuring charges (a)	343.5	63.6	3.6	22.4
Project-related costs recorded in costs of sales	13.2	9.7		
Restructuring charges and project-related costs	$ 356.7	$ 73.3	$ 3.6	$ 22.4

(a) Includes $59.6 million of restructuring charges recorded in cost of sales during fiscal 2015.
Please refer to Note 4 to the Consolidated Financial Statements in Item 8 of this report for more information regarding our restructuring activities.

Interest, net for fiscal 2015 totaled $315 million, $13 million higher than fiscal 2014, primarily driven by higher average debt balances, partially offset by changes in the mix of debt.

Our consolidated **effective tax rate** for fiscal 2015 of 33.3 percent was consistent with fiscal 2014. The 4.5 percentage point impact resulting from the repatriation of $606 million of historical foreign earnings in fiscal 2015 was offset by changes in earnings mix by country, certain favorable discrete items, and favorable state tax rate changes. Our effective tax rate excluding certain items affecting comparability was 30.5 percent in fiscal 2015 compared to 32.2

percent in fiscal 2014 (see the Non-GAAP Measures section below for a description of our use of measures not defined by GAAP).

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After-tax earnings from joint ventures for fiscal 2015 decreased to $84 million compared to $90 million in fiscal 2014 primarily driven by unfavorable foreign currency exchange and an asset impairment charge of $3 million at CPW in South Africa. On a constant-currency basis, after-tax earnings from joint ventures were flat (see the Non-GAAP Measures section below for a description of our use of this measure not defined by GAAP). The change in net sales for each joint venture is set forth in the following table:

	As Reported Fiscal 2015 vs. 2014	Constant Currency Basis Fiscal 2015 vs. 2014
CPW	(10)%	(2)