GENERAL MILLS INC
Form 10-Q
December 19, 2018
Table of Contents

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 November 25, 2018

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 December 7, 2018: 596,748,917 (excluding 157,864,411 shares held in the treasury).

Table of Contents

General Mills, Inc.

Table of Contents

Table of Contents

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		Six-Month Period Ended	
	Nov. 25, 2018	**Nov. 26, 2017**	**Nov. 25, 2018**	**Nov. 26, 2017**
Net sales	**$ 4,411.2**	$ 4,198.7	**$ 8,505.2**	$ 7,967.9
Cost of sales	**2,901.5**	2,752.5	**5,652.7**	5,208.4
Selling, general, and administrative expenses	**753.3**	735.6	**1,496.0**	1,438.4
Restructuring, impairment, and other exit costs	**209.4**	1.6	**208.0**	6.8
Operating profit	**547.0**	709.0	**1,148.5**	1,314.3
Benefit plan non-service income	**(21.0)**	(20.8)	**(41.9)**	(41.3)
Interest, net	**132.7**	74.9	**266.2**	147.3
Earnings before income taxes and after-tax earnings from joint ventures	**435.3**	654.9	**924.2**	1,208.3
Income taxes	**106.6**	234.9	**217.3**	403.4
After-tax earnings from joint ventures	**22.5**	23.8	**40.2**	47.5
Net earnings, including earnings attributable to redeemable and noncontrolling interests	**351.2**	443.8	**747.1**	852.4
Net earnings attributable to redeemable and noncontrolling interests	**7.8**	13.3	**11.4**	17.2
Net earnings attributable to General Mills	**$ 343.4**	$ 430.5	**$ 735.7**	$ 835.2
Earnings per share - basic	**$ 0.57**	$ 0.75	**$ 1.23**	$ 1.46
Earnings per share - diluted	**$ 0.57**	$ 0.74	**$ 1.22**	$ 1.43
Dividends per share	**$ 0.49**	$ 0.49	**$ 0.98**	$ 0.98

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		Six-Month Period Ended	
	Nov. 25, 2018	**Nov. 26, 2017**	**Nov. 25, 2018**	**Nov. 26, 2017**
Net earnings, including earnings attributable to redeemable and noncontrolling interests	**$ 351.2**	$ 443.8	**$ 747.1**	$ 852.4
Other comprehensive income (loss), net of tax:				
Foreign currency translation	**37.4**	(42.0)	**(68.8)**	19.5
Other fair value changes:				
Securities	**-**	0.5	**-**	0.8
Hedge derivatives	**2.1**	(0.1)	**9.2**	(8.9)
Reclassification to earnings:				
Securities	**-**	-	**(2.0)**	-
Hedge derivatives	**0.1**	0.8	**0.7**	0.6
Amortization of losses and prior service costs	**20.6**	27.9	**42.5**	55.7
Other comprehensive income (loss), net of tax	**60.2**	(12.9)	**(18.4)**	67.7
Total comprehensive income	**411.4**	430.9	**728.7**	920.1
Comprehensive income (loss) attributable to redeemable and noncontrolling interests	**(12.0)**	12.8	**(16.8)**	84.8
Comprehensive income attributable to General Mills	**$ 423.4**	$ 418.1	**$ 745.5**	$ 835.3

See accompanying notes to consolidated financial statements.

Table of Contents

Consolidated Balance Sheets

GENERAL MILLS, INC. AND SUBSIDIARIES

(In Millions, Except Par Value)

	Nov. 25, 2018 (Unaudited)	May 27, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 532.7**	$ 399.0
Receivables	**1,716.8**	1,684.2
Inventories	**1,639.2**	1,642.2
Prepaid expenses and other current assets	**345.1**	398.3
Total current assets	**4,233.8**	4,123.7
Land, buildings, and equipment	**3,897.4**	4,047.2
Goodwill	**14,018.3**	14,065.0
Other intangible assets	**7,202.7**	7,445.1
Other assets	**1,031.8**	943.0
Total assets	**$ 30,384.0**	$ 30,624.0
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	**$ 2,823.9**	$ 2,746.2
Current portion of long-term debt	**1,990.6**	1,600.1
Notes payable	**1,056.3**	1,549.8
Other current liabilities	**1,427.3**	1,445.8
Total current liabilities	**7,298.1**	7,341.9
Long-term debt	**12,208.6**	12,668.7
Deferred income taxes	**2,036.9**	2,003.8
Other liabilities	**1,313.4**	1,341.0
Total liabilities	**22,857.0**	23,355.4
Redeemable interest	**547.6**	776.2
Stockholders equity:		
Common stock, 754.6 shares issued, $0.10 par value	**75.5**	75.5
Additional paid-in capital	**1,433.0**	1,202.5

Retained earnings		**14,572.2**		14,459.6
Common stock in treasury, at cost, shares of 157.9 and 161.5		**(7,009.7)**		(7,167.5)
Accumulated other comprehensive loss		**(2,419.2)**		(2,429.0)
Total stockholders equity		**6,651.8**		6,141.1
Noncontrolling interests		**327.6**		351.3
Total equity		**6,979.4**		6,492.4
Total liabilities and equity	**$**	**30,384.0**	$	30,624.0

See accompanying notes to consolidated financial statements.

5

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) Issued				Treasury											
Par Amount		Additional Paid-In Capital		Shares		Amount		Retained Earnings		Accumulated Other Comprehensive Loss		Non-controlling Interests	
75.5	$	1,120.9		(177.7)	$	(7,762.9)	$	13,138.9	$	(2,244.5)	$	357.6	$
								2,131.0		144.9		26.9	
								(1,139.7)					
				(10.9)		(601.6)							
		(39.1)		22.7		1,009.0							
		(57.9)		4.4		188.0							
		(58.1)											
		77.0											
		159.7											
												(33.2)	

							329.4		(329.4)			
75.5		1,202.5	(161.5)		(7,167.5)		14,459.6		(2,429.0)		351.3	
							735.7		9.8		(1.4)	
							(589.2)					
			-		(0.3)							
		(15.5)	3.6		158.1							
		(66.7)										
		43.8										
		268.9										
											(22.3)	
							(33.9)					
75.5	**$**	**1,433.0**	**(157.9)**	**$**	**(7,009.7)**	**$**	**14,572.2**	**$**	**(2,419.2)**	**$**	**327.6**	**$**

See accompanying notes to consolidated financial statements.

Table of Contents

Consolidated Statements of Cash Flows

GENERAL MILLS, INC. AND SUBSIDIARIES

(Unaudited) (In Millions)

	Six-Month Period Ended	
	Nov. 25, 2018	**Nov. 26, 2017**
Cash Flows - Operating Activities		
Net earnings, including earnings attributable to redeemable and noncontrolling interests	**$ 747.1**	$ 852.4
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	**310.1**	290.8
After-tax earnings from joint ventures	**(40.2)**	(47.5)
Distributions of earnings from joint ventures	**34.7**	45.1
Stock-based compensation	**44.5**	48.2
Deferred income taxes	**43.8**	70.2
Pension and other postretirement benefit plan contributions	**(14.6)**	(12.6)
Pension and other postretirement benefit plan costs	**3.1**	2.4
Restructuring, impairment, and other exit costs	**179.0**	(7.4)
Changes in current assets and liabilities	**100.0**	362.3
Other, net	**(11.0)**	(37.1)
Net cash provided by operating activities	**1,396.5**	1,566.8
Cash Flows - Investing Activities		
Purchases of land, buildings, and equipment	**(253.8)**	(260.0)
Investments in affiliates, net	**(1.5)**	(7.4)
Proceeds from disposal of land, buildings, and equipment	**11.3**	0.6
Other, net	**(51.4)**	(3.9)
Net cash used by investing activities	**(295.4)**	(270.7)
Cash Flows - Financing Activities		
Change in notes payable	**(482.1)**	53.1
Issuance of long-term debt	**-**	500.0
Payment of long-term debt	**(0.4)**	(500.1)
Proceeds from common stock issued on exercised options	**87.3**	50.6

Purchases of common stock for treasury		**(0.3)**		(600.5)
Dividends paid		**(589.2)**		(565.2)
Investment in redeemable interest		**55.7**		-
Distributions to noncontrolling and redeemable interest holders		**(6.8)**		(45.3)
Other, net		**(11.5)**		(23.6)
Net cash used by financing activities		**(947.3)**		(1,131.0)
Effect of exchange rate changes on cash and cash equivalents		**(20.1)**		30.9
Increase in cash and cash equivalents		**133.7**		196.0
Cash and cash equivalents - beginning of year		**399.0**		766.1
Cash and cash equivalents - end of period	**$**	**532.7**	$	962.1
Cash Flow from changes in current assets and liabilities:				
Receivables	**$**	**(64.0)**	$	(53.9)
Inventories		**(15.3)**		(15.6)
Prepaid expenses and other current assets		**45.3**		42.3
Accounts payable		**144.1**		377.0
Other current liabilities		**(10.1)**		12.5
Changes in current assets and liabilities	**$**	**100.0**	$	362.3

See accompanying notes to consolidated financial statements.

Table of Contents

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 (U.S. GAAP) 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 November 25, 2018, are not necessarily indicative of the results that may be expected for the fiscal year ending May 26, 2019.

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 27, 2018. 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 with the exception of the new accounting requirements adopted in the first quarter of fiscal 2019 related to the presentation of net periodic defined benefit pension expense, net periodic postretirement benefit expense, and net periodic postemployment benefit expense and to revenue recognition. Please see Note 17 for additional information. Certain terms used throughout this report are defined in the Glossary section below.

(2) Acquisition

During the fourth quarter of fiscal 2018, we acquired Blue Buffalo Pet Products, Inc. (Blue Buffalo) for an aggregate purchase price of $8.0 billion, including $103.0 million of consideration for net debt repaid at the time of the acquisition. In accordance with the definitive agreement and plan of merger, a subsidiary of General Mills merged into Blue Buffalo, with Blue Buffalo surviving the merger as a wholly owned subsidiary of General Mills. In accordance with the merger agreement, equity holders of Blue Buffalo received $40.00 per share in cash. We financed the transaction with a combination of $6.0 billion in debt, $1.0 billion in equity, and cash on hand. In the quarter and six-month periods ended November 25, 2018, we recorded acquisition integration costs of $6.8 million and $15.5 million respectively, in selling, general, and administrative (SG&A) expenses.

We consolidated Blue Buffalo into our Consolidated Balance Sheets and recorded goodwill of $5.3 billion, an indefinite-lived intangible asset for the Blue Buffalo brand of $2.7 billion, and a finite-lived customer relationship asset of $269.0 million. The goodwill was primarily attributable to future growth opportunities and any intangible assets that did not qualify for separate recognition. The goodwill is included in the Pet reporting unit and is not deductible for tax purposes. We have conducted a preliminary assessment of certain assets and liabilities related to the acquisition of Blue Buffalo, and we are continuing our review of these items during the measurement period. If new information is obtained about facts and circumstances that existed at the acquisition date, the acquisition accounting will be revised to reflect the resulting adjustments to current estimates of these items.

The results of Blue Buffalo are reported in our Pet operating segment on a one-month lag.

(3) Restructuring, Impairment, and Other Exit Costs

Restructuring and impairment charges were as follows:

	Quarter Ended		Six-Month Period Ended	
In Millions	**Nov. 25, 2018**	**Nov. 26, 2017**	**Nov. 25, 2018**	**Nov. 26, 2017**
Asset impairments	$ **205.8**	$ -	$ **205.8**	$ -
Charges associated with restructuring actions previously announced	**3.6**	2.2	**2.4**	19.7
Total	$ **209.4**	$ 2.2	$ **208.2**	$ 19.7

In the second quarter of fiscal 2019, we recorded $192.6 million of charges related to the impairment of our *Progresso*, *Food Should Taste Good* and *Mountain High* brand intangible assets in restructuring, impairment, and other exit costs. Please see Note 4 for additional information.

Table of Contents

During the second quarter of fiscal 2019, we recorded a $13.2 million charge in restructuring, impairment, and other exit costs related to the impairment of certain manufacturing assets within our North America Retail segment.

In the six-month period ended November 25, 2018, we did not undertake any new restructuring actions. We recorded $3.6 million of charges for previously announced restructuring actions in the second quarter of fiscal 2019 and $2.4 million in the six-month period ended November 25, 2018, compared to $2.2 million in the second quarter of fiscal 2018 and $19.7 million in the six-month period ended November 26, 2017. We paid $29.2 million in cash relating to these actions in the six-month period ended November 25, 2018, compared to $27.1 million in the six-month period ended November 26, 2017. These restructuring actions are expected to be completed by the end of fiscal 2020.

We paid $0.3 million in cash in the six-month period ended November 25, 2018, for project-related costs compared to $5.0 million in the same period of fiscal 2018.

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

	Quarter Ended		Six-Month Period Ended	
In Millions	**Nov. 25, 2018**	**Nov. 26, 2017**	**Nov. 25, 2018**	**Nov. 26, 2017**
Restructuring, impairment, and other exit costs	**$ 209.4**	$ 1.6	**$ 208.0**	$ 6.8
Cost of sales	**-**	0.6	**0.2**	12.9
Total restructuring and impairment charges	**209.4**	2.2	**208.2**	19.7
Project-related costs classified in cost of sales	**$ -**	$ 4.2	**$ 1.2**	$ 5.4

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

In Millions	**Severance**	**Contract Termination**	**Other Exit Costs**	**Total**
Reserve balance as of May 27, 2018	$ 66.0	$ 0.1	$ 0.7	$ 66.8
Fiscal 2019 charges, including foreign currency translation	(6.4)	0.9	1.9	(3.6)
Utilized in fiscal 2019	(20.9)	(1.0)	(2.3)	(24.2)
Reserve balance as of Nov. 25, 2018	**$ 38.7**	**$ -**	**$ 0.3**	**$ 39.0**

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, accelerated depreciation, the gain or loss on the sale of restructured assets, and the write-off of spare parts) and other periodic exit costs are 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	Nov. 25, 2018	May 27, 2018
Goodwill	**$ 14,018.3**	$ 14,065.0
Other intangible assets:		
Intangible assets not subject to amortization:		
Brands and other indefinite-lived intangibles	**6,604.2**	6,818.7
Intangible assets subject to amortization:		
Franchise agreements, customer relationships, and other finite-lived intangibles	**793.0**	811.7
Less accumulated amortization	**(194.5)**	(185.3)
Intangible assets subject to amortization, net	**598.5**	626.4
Other intangible assets	**7,202.7**	7,445.1
Total	**$ 21,221.0**	$ 21,510.1

Table of Contents

Based on the carrying value of finite-lived intangible assets as of November 25, 2018, annual amortization expense for each of the next five fiscal years is estimated to be approximately $40 million.

During the fourth quarter of fiscal 2018, we acquired Blue Buffalo, which became our Pet operating segment and we recorded $5.3 billion of goodwill, $2.7 billion related to an indefinite-lived brand intangible asset, and $269.0 million related to a customer relationships intangible asset.

The changes in the carrying amount of goodwill during fiscal 2019 were as follows:

In Millions	North America Retail	Pet	Convenience Stores & Foodservice	Europe & Australia	Asia & Latin America	Joint Ventures	Total
Balance as of May 27, 2018	$ 6,410.6	$ 5,294.9	$ 918.8	$ 729.9	$ 285.0	$ 425.8	$ 14,065.0
Other activity, primarily foreign currency translation	(2.3)	-	-	(21.3)	(11.7)	(11.4)	(46.7)
Balance as of Nov. 25, 2018	**$ 6,408.3**	**$ 5,294.9**	**$ 918.8**	**$ 708.6**	**$ 273.3**	**$ 414.4**	**$ 14,018.3**

The changes in the carrying amount of other intangible assets during fiscal 2019 were as follows:

In Millions	Total
Balance as of May 27, 2018	$ 7,445.1
Impairment charges	(192.6)
Other activity, primarily foreign currency translation	(49.8)
Balance as of Nov. 25, 2018	**$ 7,202.7**

We performed our annual goodwill and indefinite-lived intangible assets impairment test as of the first day of the second quarter of fiscal 2019. As a result of lower sales projections in our long-range plans for the businesses supporting the *Progresso*, *Food Should Taste Good*, and *Mountain High* brand intangible assets, we recorded the following impairment charges:

In Millions	Impairment Charge	Fair Value as of Nov. 25, 2018 (a)
Progresso	$ 132.1	$ 330.0
Food Should Taste Good	45.1	-

Mountain High		15.4		-
Total	$	192.6	$	330.0

(a) Level 3 assets in the fair value hierarchy

Significant assumptions used in that assessment included our long-range cash flow projections for the businesses, royalty rates, weighted average cost of capital rates, and tax rates.

All other intangible asset fair values were substantially in excess of the carrying values, except for the Latin America reporting unit and the *Yoki* brand intangible asset. The excess fair value as of the fiscal 2019 test date of the Latin America reporting unit and the *Yoki* brand intangible asset were as follows:

In Millions		**Carrying Value of Intangible Asset**	**Excess Fair Value as of Fiscal 2019 Test Date**
Latin America	$	209.0	7%
Yoki	$	49.1	10%

While having significant coverage as of our fiscal 2019 assessment date, the *Pillsbury* brand intangible asset and U.S. Yogurt reporting unit had risk of decreasing coverage. We will continue to monitor these businesses for potential impairment.

Table of Contents

(5) Inventories

The components of inventories were as follows:

In Millions	Nov. 25, 2018	May 27, 2018
Raw materials and packaging	**$ 396.7**	$ 400.0
Finished goods	**1,349.2**	1,364.2
Grain	**112.5**	91.2
Excess of FIFO over LIFO cost	**(219.2)**	(213.2)
Total	**$ 1,639.2**	$ 1,642.2

(6) Risk Management Activities

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

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

Although we do not meet the criteria for cash flow hedge accounting, we believe that these instruments are effective in achieving our objective of providing certainty in the future price of commodities purchased for use in our supply chain. Accordingly, for purposes of measuring segment operating performance, these 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 any resulting mark-to-market volatility, which remains in unallocated corporate items.

Unallocated corporate items for the quarters and six-month periods ended November 25, 2018 and November 26, 2017 included:

	Quarter Ended		Six-Month Period Ended	
In Millions	Nov. 25, 2018	Nov. 26, 2017	Nov. 25, 2018	Nov. 26, 2017
Net loss on mark-to-market valuation of certain commodity positions	**$ (17.5)**	$ (0.6)	**$ (37.0)**	$ (8.4)

Net loss (gain) on commodity positions reclassified from unallocated corporate items to segment operating profit	**2.2**	2.5	**(1.5)**	6.1
Net mark-to-market revaluation of certain grain inventories	**3.5**	2.6	**(4.4)**	8.6
Net mark-to-market valuation of certain commodity positions recognized in unallocated corporate items	**$ (11.8)**	$ 4.5	**$ (42.9)**	$ 6.3

As of November 25, 2018, the net notional value of commodity derivatives was $172.1 million, of which $73.6 million related to energy inputs and $98.5 million related to agricultural inputs. These contracts relate to inputs that generally will be utilized within the next 12 months.

The fair values of the derivative positions used in our risk management activities and other assets recorded at fair value were not material as of November 25, 2018, and were Level 1 or Level 2 assets and liabilities in the fair value hierarchy. We did not significantly change our valuation techniques from prior periods.

We offer certain suppliers access to third party services that allow them to view our scheduled payments online. The third party services also allow 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 parties, or any financial institutions concerning these services. All of our accounts payable remain as obligations to our suppliers as stated in our

Table of Contents

supplier agreements. As of November 25, 2018, $1,033.1 million of our total accounts payable were payable to suppliers who utilize these third party services.

(7) Debt

The components of notes payable were as follows:

In Millions	Nov. 25, 2018	May 27, 2018
U.S. commercial paper	**$ 867.6**	$ 1,213.5
Financial institutions	**188.7**	336.3
Total	**$ 1,056.3**	$ 1,549.8

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

The following table details the fee-paid committed and uncommitted credit lines we had available as of November 25, 2018:

In Billions	Facility Amount	Borrowed Amount
Credit facility expiring:		
May 2022	$ 2.7	$ -
June 2019	0.2	-
Total committed credit facilities	2.9	-
Uncommitted credit facilities	0.6	0.2
Total committed and uncommitted credit facilities	$ 3.5	$ 0.2

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 November 25, 2018.

Long-Term Debt

The fair values and carrying amounts of long-term debt, including the current portion, were $13,874.0 million and $14,199.2 million, respectively, as of November 25, 2018. The fair value of long-term debt was estimated using market quotations and discounted cash flows based on our current incremental borrowing rates for similar types of instruments. Long-term debt is a Level 2 liability in the fair value hierarchy.

In April 2018, we issued $4,800.0 million principal amount of fixed-rate notes. Interest on the notes is payable semi-annually in arrears. We may redeem the notes in whole, or in part, at any time at the applicable redemption price. The notes are senior unsecured obligations that include a change of control repurchase provision. The net proceeds were used to finance a portion of the Blue Buffalo acquisition. The principal amounts of these fixed-rate notes were as follows:

In Millions	**Principal**
4.2% notes due April 17, 2028	$ 1,400.0
3.7% notes due October 17, 2023	850.0
4.0% notes due April 17, 2025	800.0
4.7% notes due April 17, 2048	650.0
3.2% notes due April 16, 2021	600.0
4.55% notes due April 17, 2038	500.0
Total	$ 4,800.0

Table of Contents

In April 2018, we issued $1,250.0 million principal amount of floating-rate notes. Interest on the notes is payable quarterly in arrears. The notes are not generally redeemable prior to maturity. These notes are senior unsecured obligations that include a change of control repurchase provision. The net proceeds were used to finance a portion of the Blue Buffalo acquisition.

The principal amounts of these floating-rate notes were as follows:

In Millions	**Principal**
Floating-rate notes due April 16, 2021	$ 850.0
Floating-rate notes due October 17, 2023	400.0
Total	$ 1,250.0

In the third quarter of fiscal 2018, we paid $113.8 million to repurchase $100.0 million of our previously issued 6.39 percent medium term notes due 2023. We recorded the $13.8 million premium paid in the repurchase as interest expense.

In October 2017, we issued $500.0 million principal amount of 2.6 percent fixed-rate notes due October 12, 2022. Interest on the notes is payable semi-annually in arrears. We may redeem the notes in whole, or in part, at any time at the applicable redemption price. The notes are senior unsecured obligations that include a change of control repurchase provision. The net proceeds, together with cash on hand, were used to repay $500.0 million of 1.4 percent fixed-rate notes.

Certain of our long-term debt agreements contain restrictive covenants. As of November 25, 2018, we were in compliance with all of these covenants.

(8) Redeemable and Noncontrolling Interests

We have a 51 percent controlling interest in Yoplait SAS and a 50 percent interest in Yoplait Marques SNC and Liberté Marques Sàrl. Sodiaal International (Sodiaal) holds the remaining interests in each of the entities. On the acquisition date, we recorded the $904.4 million fair value of Sodiaal s 49 percent euro-denominated interest in Yoplait SAS as a redeemable interest on our Consolidated Balance Sheets. Sodiaal has the ability to put all or a portion of its redeemable interest to us at fair value once per year, up to three times before December 2024. We adjust the value of the redeemable interest through additional paid-in capital on our Consolidated Balance Sheets quarterly to the redeemable interest s redemption value, which approximates its fair value. Yoplait SAS pays dividends annually if it meets certain financial metrics set forth in its shareholders agreement. As of November 25, 2018, the redemption value of the euro-denominated redeemable interest was $547.6 million.

A subsidiary of Yoplait SAS has an exclusive milk supply agreement for its European operations with Sodiaal through July 1, 2021. Net purchases totaled $107.8 million for the six-month period ended November 25, 2018, and $112.3 million for the six-month period ended November 26, 2017.

During the second quarter of fiscal 2019, Sodiaal made an additional investment of $55.7 million in Yoplait SAS.

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

The third-party holder of the 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 to the holder s capital account balance established in the most recent mark-to-market valuation (currently $251.5 million). On June 1, 2018, the floating preferred return rate on GMC s Class A Interests was reset to the sum of three-month LIBOR plus 142.5 basis points. 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 November 25, 2018, we were in compliance with all of these covenants.

13

Table of Contents

(9) Stockholders Equity

The following tables provide details of total comprehensive income:

Quarter Ended Nov. 25, 2018					Quarter Ended Nov. 26, 2017			
General Mills			Noncontrolling Interests	Redeemable Interest	General Mills			Noncontrolling Interests
Pretax	Tax	Net	Net	Net	Pretax	Tax	Net	Net
		$ 343.4	$ 5.1	$ 2.7			$ 430.5	$ 4.5
$ 56.5	$ -	56.5	(8.3)	(10.8)	$ (43.3)	$ -	(43.3)	0.6
-	-	-	-	-	0.9	(0.4)	0.5	-
2.0	0.7	2.7	-	(0.6)	3.5	(2.5)	1.0	-
0.5	(0.3)	0.2	-	(0.1)	2.5	(1.0)	1.5	-
26.8	(6.2)	20.6	-	-	43.8	(15.9)	27.9	-
$ 85.8	$ (5.8)	80.0	(8.3)	(11.5)	$ 7.4	$ (19.8)	(12.4)	0.6
		$ 423.4	$ (3.2)	$ (8.8)			$ 418.1	$ 5.1

(a) Loss (gain) 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 benefit plan non-service income. Please refer to Note 17.

Table of Contents

Six-Month Period Ended Nov. 25, 2018					Six-Month Period Ended Nov. 26, 2017			
General Mills			Noncontrolling Interests	Redeemable Interest	General Mills			Noncontrollin
retax	Tax	Net	Net	Net	Pretax	Tax	Net	Net
		$ 735.7	**$ 8.2**	**$ 3.2**			$ 835.2	$ 6.
(40.3)	**$ -**	**(40.3)**	**(9.6)**	**(18.9)**	$ (48.6)	$ -	(48.6)	22.
-	**-**	**-**	**-**	**-**	1.3	(0.5)	0.8	
9.2	**(0.3)**	**8.9**	**-**	**0.3**	(12.2)	2.7	(9.5)	
(2.6)	**0.6**	**(2.0)**	**-**	**-**	-	-	-	
1.0	**(0.3)**	**0.7**	**-**	**-**	3.3	(1.6)	1.7	
53.7	**(11.2)**	**42.5**	**-**	**-**	87.6	(31.9)	55.7	
21.0	**$ (11.2)**	**9.8**	**(9.6)**	**(18.6)**	$ 31.4	$ (31.3)	0.1	22.
		$ 745.5	**$ (1.4)**	**$ (15.4)**			$ 835.3	$ 28.

(a) Gain reclassified from AOCI into earnings is reported in interest, net for securities.

(b) Loss (gain) 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.

(c) Loss reclassified from AOCI into earnings is reported in benefit plan non-service income. Please refer to Note 17.
Accumulated other comprehensive loss balances, net of tax effects, were as follows:

In Millions	Nov. 25, 2018	May 27, 2018
Foreign currency translation adjustments	**$ (741.9)**	$ (701.6)
Unrealized gain (loss) from:		
Securities	**-**	2.0
Hedge derivatives	**(22.5)**	(32.1)
Pension, other postretirement, and postemployment benefits:		
Net actuarial loss	**(1,679.9)**	(1,723.6)
Prior service credits	**25.1**	26.3
Accumulated other comprehensive loss	**$ (2,419.2)**	$ (2,429.0)

15

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 27, 2018.

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

In Millions	Quarter Ended Nov. 25, 2018	Quarter Ended Nov. 26, 2017	Six-Month Period Ended Nov. 25, 2018	Six-Month Period Ended Nov. 26, 2017
Compensation expense related to stock-based payments	**$ 18.4**	$ 19.3	**$ 44.6**	$ 48.9

Compensation expense related to stock-based payments recognized in the Consolidated Statements of Earnings includes amounts recognized in restructuring, impairment, and other exit costs in fiscal 2019 and fiscal 2018.

We recognized windfall tax benefits from stock-based payments in income tax expense in our Consolidated Statements of Earnings of $1.9 million for the second quarter of fiscal 2019 and $6.7 million for the six-month period ended November 25, 2018 compared to $2.5 million in the second quarter of fiscal 2018 and $20.2 million in the six-month period ended November 26, 2017.

As of November 25, 2018, unrecognized compensation expense related to non-vested stock options, restricted stock units, and performance share units was $133.7 million. This expense will be recognized over 26 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	Six-Month Period Ended Nov. 25, 2018	Six-Month Period Ended Nov. 26, 2017
Net cash proceeds	**$ 87.3**	$ 50.6
Intrinsic value of options exercised	**$ 39.0**	$ 46.0

We estimate the fair value of each stock option on the grant date using a Black-Scholes option-pricing model. Black-Scholes option-pricing models require us to make predictive assumptions regarding future stock price volatility, employee exercise behavior, and dividend yield. We estimate our future stock price volatility using the historical volatility over the expected term of the option, excluding time periods of volatility we believe a marketplace participant would exclude in estimating our stock price volatility. We also have considered, but did not use, implied volatility in our estimate, because trading activity in options on our stock, especially those with tenors of greater than 6 months, is insufficient to provide a reliable measure of expected volatility. Our method of selecting the other valuation assumptions is explained in Note 11 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 27, 2018.

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

	Six-Month Period Ended	
	Nov. 25, 2018	**Nov. 26, 2017**
Estimated fair values of stock options granted	**$5.35**	$6.18
Assumptions:		
Risk-free interest rate	**2.9 %**	2.2 %
Expected term	**8.5 years**	8.2 years
Expected volatility	**16.3 %**	15.8 %
Dividend yield	**4.3 %**	3.6 %

Table of Contents

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 27, 2018	28,963.8	$ 42.90		
Granted	3,107.4	46.06		
Exercised	(2,915.5)	31.46		
Forfeited or expired	(349.6)	53.78		
Outstanding as of Nov. 25, 2018	**28,806.1**	**$ 44.27**	**4.61**	**$ 123.7**
Exercisable as of Nov. 25, 2018	**19,171.6**	**$ 38.78**	**2.72**	**$ 123.7**

Information on restricted stock and performance share unit activity follows:

	Equity Classified		Liability Classified	
	Share-Settled Units (Thousands)	Weighted-Average Grant-Date Fair Value	Share-Settled Units (Thousands)	Weighted-Average Grant-Date Fair Value
Non-vested as of May 27, 2018	3,731.8	$ 57.50	121.3	$ 58.26
Granted	1,677.8	45.83	33.7	46.12
Vested	(717.0)	50.13	(34.8)	54.38
Forfeited	(255.7)	62.98	(10.7)	57.69
Non-vested as of Nov. 25, 2018	**4,436.9**	**$ 53.96**	**109.5**	**$ 55.46**

The total grant date fair value of restricted stock unit awards that vested during the period follows:

	Six-Month Period Ended	
In Millions	**Nov. 25, 2018**	**Nov. 26, 2017**
Total grant date fair value	**$ 37.9**	$ 77.0

17

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 Nov. 25, 2018	Quarter Ended Nov. 26, 2017	Six-Month Period Ended Nov. 25, 2018	Six-Month Period Ended Nov. 26, 2017
Net earnings attributable to General Mills	**$ 343.4**	$ 430.5	**$ 735.7**	$ 835.2
Average number of common shares - basic EPS	**599.4**	571.3	**598.7**	574.0
Incremental share effect from: (a)				
Stock options	**3.3**	7.0	**3.4**	7.6
Restricted stock, restricted stock units, and other	**1.8**	2.0	**1.7**	2.0
Average number of common shares - diluted EPS	**604.5**	580.3	**603.8**	583.6
Earnings per share - basic	**$ 0.57**	$ 0.75	**$ 1.23**	$ 1.46
Earnings per share - diluted	**$ 0.57**	$ 0.74	**$ 1.22**	$ 1.43

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

In Millions	Quarter Ended Nov. 25, 2018	Quarter Ended Nov. 26, 2017	Six-Month Period Ended Nov. 25, 2018	Six-Month Period Ended Nov. 26, 2017
Anti-dilutive stock options, restricted stock units, and performance share units	**14.4**	9.2	**14.0**	7.5

(12) Share Repurchases

Share repurchases were as follows:

In Millions	Quarter Ended Nov. 25, 2018	Quarter Ended Nov. 26, 2017	Six-Month Period Ended Nov. 25, 2018	Six-Month Period Ended Nov. 26, 2017
Shares of common stock	**-**	-	**-**	10.9
Aggregate purchase price	**$0.1**	$0.2	**$0.3**	$600.5

(13) Statements of Cash Flows

Our Consolidated Statements of Cash Flows include the following:

	Six-Month Period Ended	
In Millions	**Nov. 25, 2018**	**Nov. 26, 2017**
Net cash interest payments	**$ 252.0**	$ 133.7
Net income tax payments	**$ 235.2**	$ 333.0

Table of Contents

(14) Retirement and Postemployment Benefits

In fiscal 2018, we approved an amendment to reorganize the U.S. qualified defined benefit pension plans and the supplemental pension plans that resulted in the spinoff of a portion of the General Mills Pension Plan (the Plan) and the 2005 Supplemental Retirement Plan and the Supplemental Retirement Plan (Grandfathered) (together, the Supplemental Plans) into new plans effective May 31, 2018. The benefits offered to the plans participants were unchanged. The result of the reorganization was the creation of the General Mills Pension Plan I (Plan I) and the 2005 Supplemental Retirement Plan I and the Supplemental Retirement Plan I (Grandfathered) (together, the Supplemental Plans I). The reorganization was made to facilitate a targeted investment strategy over time and to provide additional flexibility in evaluating opportunities to reduce risk and volatility. Actuarial gains and losses associated with the Plan and the Supplemental Plans are amortized over the average remaining service life of the active participants. Actuarial gains and losses associated with Plan I and the Supplemental Plans I are amortized over the average remaining life of the participants.

Components of net periodic benefit expense are as follows:

	Defined Benefit Pension Plans Quarter Ended		Other Postretirement Benefit Plans Quarter Ended		Postemployment Benefit Plans Quarter Ended	
In Millions	**Nov. 25, 2018**	**Nov. 26, 2017**	**Nov. 25, 2018**	**Nov. 26, 2017**	**Nov. 25, 2018**	**Nov. 26, 2017**
Service cost	**$ 23.7**	$ 24.0	**$ 2.7**	$ 2.8	**$ 1.9**	$ 2.2
Interest cost	**62.0**	55.4	**8.2**	7.7	**0.8**	0.5
Expected return on plan assets	**(111.5)**	(119.3)	**(10.1)**	(13.1)	**-**	-
Amortization of losses	**27.5**	44.1	**0.1**	0.2	**-**	0.2
Amortization of prior service costs (credits)	**0.4**	0.5	**(1.4)**	(1.3)	**0.2**	0.1
Other adjustments	**-**	-	**-**	-	**2.8**	3.4
Net expense (income)	**$ 2.1**	$ 4.7	**$ (0.5)**	$ (3.7)	**$ 5.7**	$ 6.4

In Millions	**Defined Benefit Pension Plans Six-Month Period Ended**	**Other Postretirement Benefit Plans Six-Month Period Ended**	**Postemployment Benefit Plans Six-Month Period Ended**

	Nov. 25, 2018	Nov. 26, 2017	Nov. 25, 2018	Nov. 26, 2017	Nov. 25, 2018	Nov. 26, 2017
Service cost	**$ 47.4**	$ 47.9	**$ 5.1**	$ 5.6	**$ 3.8**	$ 4.3
Interest cost	**124.0**	110.8	**16.5**	15.4	**1.5**	1.1
Expected return on plan assets	**(223.0)**	(238.4)	**(20.2)**	(26.1)	**-**	-
Amortization of losses	**55.0**	88.2	**0.3**	0.4	**0.1**	0.4
Amortization of prior service costs (credits)	**0.8**	1.0	**(2.8)**	(2.7)	**0.3**	0.3
Other adjustments	**-**	-	**-**	-	**5.6**	6.8
Net expense (income)	**$ 4.2**	$ 9.5	**$ (1.1)**	$ (7.4)	**$ 11.3**	$ 12.9

(15) Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was signed into law. The TCJA results in significant revisions to the U.S. corporate income tax system, including a reduction in the U.S. corporate income tax rate, implementation of a territorial system, and a one-time deemed repatriation tax on untaxed foreign earnings. The TCJA includes provisions affecting our fiscal 2019 tax rate, including, but not limited to: a reduction in the U.S. corporate tax rate on domestic operations to 21 percent; a new provision that taxes U.S. allocated expenses and certain income from foreign operations (Global Intangible Low Tax Income or GILTI); a new limitation on deductible interest expense; the repeal of the domestic manufacturing deduction; and a limitation on the deductibility of certain executive compensation.

Generally, the impacts of new legislation would be required to be recorded in the period of enactment which for us was the third quarter of fiscal 2018. However, Accounting Standards Update 2018-05: *Income Taxes (Topic 740)* (ASU 2018-05) was issued with guidance allowing for the recognition of provisional amounts in the event that the accounting is not complete and a reasonable

19

estimate can be made. The guidance allows for a measurement period of up to one year from the enactment date to finalize the accounting related to the TCJA.

As of November 25, 2018, we have not completed our accounting for the tax effects of the TCJA. During fiscal 2018, we recorded a provisional net benefit of $523.5 million which included the estimated impact of revaluing our net U.S. deferred tax liabilities to reflect the new U.S. corporate tax rate, partially offset by a provisional charge for the estimated transition tax and a provisional deferred tax liability related to changes in our permanent reinvestment assertion. This provisional net benefit was determined using reasonable estimates for those tax effects based on analysis and information available to date. The provisional net benefit is subject to revisions as we complete our analysis of the TCJA, collect and prepare necessary data, and interpret any additional guidance issued by the U.S. Treasury Department, Internal Revenue Service, Financial Accounting Standards Board, and other standard setting and regulatory bodies. Adjustments may materially impact our provision for income taxes and effective tax rate in the period in which the adjustments are made. Our accounting for the tax effects of the TCJA will be completed during the measurement period of up to one year from the enactment date. During the second quarter of fiscal 2019, we continued our analysis of the impacts of the TCJA and there were no adjustments to the previously recorded provisional amounts.

(16) Business Segment and Geographic Information

We operate in the packaged foods industry. During the fourth quarter of fiscal 2018, we acquired Blue Buffalo, which became our Pet operating segment. Following the acquisition, our operating segments are as follows: North America Retail; Convenience Stores & Foodservice; Europe & Australia; Asia & Latin America; and Pet.

Our North America Retail operating segment reflects business with a wide variety of grocery stores, mass merchandisers, membership stores, natural food chains, drug, dollar and discount chains, and e-commerce grocery providers. Our product categories in this business segment are ready-to-eat cereals, refrigerated yogurt, soup, meal kits, refrigerated and frozen dough products, dessert and baking mixes, frozen pizza and pizza snacks, grain, fruit and savory snacks, and a wide variety of organic products including refrigerated yogurt, nutrition bars, meal kits, salty snacks, ready-to-eat cereal, and grain snacks.

Our major product categories in our Convenience Stores & Foodservice operating segment are ready-to-eat cereals, snacks, refrigerated yogurt, frozen meals, unbaked and fully baked frozen dough products, and baking mixes. 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 in the United States.

Our Europe & Australia operating segment reflects retail and foodservice businesses in the greater Europe and Australia regions. Our product categories include refrigerated yogurt, meal kits, super-premium ice cream, refrigerated and frozen dough products, shelf stable vegetables, grain snacks, and dessert and baking mixes. We also sell super-premium ice cream directly to consumers through owned retail shops. Revenues from franchise fees are reported in the region or country where the franchisee is located.

Our Asia & Latin America operating segment consists of retail and foodservice businesses in the greater Asia and South America regions. Our product categories include super-premium ice cream and frozen desserts, refrigerated and frozen dough products, dessert and baking mixes, meal kits, salty and grain snacks, wellness beverages, and refrigerated yogurt. We also sell super-premium ice cream and frozen desserts directly to consumers through owned retail shops. Our Asia & Latin America 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 or franchisee is located.

Our Pet operating segment includes pet food products sold primarily in the United States in specialty channels, including national pet superstore chains, regional pet store chains, neighborhood pet stores, and farm and feed stores; e-commerce retailers; military outlets; hardware stores; veterinary clinics and hospitals; and grocery and mass merchandisers. Our product categories include dog and cat food (dry foods, wet foods, and treats) made with whole meats, fruits and vegetables, and other high-quality natural ingredients. Our tailored pet product offerings address specific dietary, lifestyle, and life-stage needs and span different product types, diet types, breed sizes for dogs, lifestages, flavors, product functions and textures, and cuts for wet foods. We are reporting the Pet operating segment results on a one-month lag and accordingly, our fiscal 2018 results did not include Pet segment operating results.

Operating profit for these segments excludes unallocated corporate items, gain or loss on divestitures, and restructuring, impairment, and other exit costs. Unallocated corporate items include corporate overhead expenses, variances to planned domestic employee benefits and incentives, contributions to the General Mills Foundation, asset and liability remeasurement impact of hyperinflationary economies, restructuring initiative project-related costs, and other items that are not part of our measurement of segment operating performance. These include gains and losses arising from the revaluation of certain grain inventories and gains and losses from mark-to-market valuation of certain commodity positions until passed back to our operating segments. These items affecting operating profit are centrally managed at the corporate level and are excluded from the measure of segment profitability reviewed by executive management. Under our supply chain organization, our manufacturing, warehouse, and distribution activities are substantially

Table of Contents

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 for all operating segments.

Our operating segment results were as follows:

	Quarter Ended		Six-Month Period Ended	
In Millions	Nov. 25, 2018	Nov. 26, 2017	Nov. 25, 2018	Nov. 26, 2017
Net sales:				
North America Retail	$ **2,677.1**	$ 2,771.8	$ **5,064.9**	$ 5,210.0
Convenience Stores & Foodservice	**514.4**	512.2	**977.6**	959.3
Europe & Australia	**453.8**	466.7	**954.5**	958.6
Asia & Latin America	**430.7**	448.0	**829.7**	840.0
Pet	**335.2**	-	**678.5**	-
Total	$ **4,411.2**	$ 4,198.7	$ **8,505.2**	$ 7,967.9
Operating profit:				
North America Retail	$ **619.8**	$ 622.9	$ **1,167.9**	$ 1,156.1
Convenience Stores & Foodservice	**109.6**	106.5	**206.7**	191.3
Europe & Australia	**22.5**	26.9	**57.0**	57.5
Asia & Latin America	**17.9**	16.7	**30.1**	32.2
Pet	**70.8**	-	**85.3**	-
Total segment operating profit	**840.6**	773.0	**1,547.0**	1,437.1
Unallocated corporate items	**84.2**	62.4	**190.5**	116.0
Restructuring, impairment, and other exit costs	**209.4**	1.6	**208.0**	6.8
Operating profit	$ **547.0**	$ 709.0	$ **1,148.5**	$ 1,314.3

Net sales for our North America Retail operating units were as follows:

	Quarter Ended		Six-Month Period Ended	
In Millions	Nov. 25, 2018	Nov. 26, 2017	Nov. 25, 2018	Nov. 26, 2017
U.S. Meals & Baking	$ **1,174.6**	$ 1,196.7	$ **2,012.1**	$ 2,052.7
U.S. Cereal	**543.9**	570.1	**1,128.3**	1,148.7
U.S. Snacks	**504.3**	524.9	**1,037.8**	1,083.5
U.S. Yogurt and Other	**228.1**	237.6	**447.2**	461.0
Canada	**226.2**	242.5	**439.5**	464.1
Total	$ **2,677.1**	$ 2,771.8	$ **5,064.9**	$ 5,210.0

Table of Contents

Net sales by class of similar products were as follows:

	Quarter Ended		Six-Month Period Ended	
In Millions	Nov. 25, 2018	Nov. 26, 2017	Nov. 25, 2018	Nov. 26, 2017
Snacks	**$ 827.7**	$ 833.7	**$ 1,687.2**	$ 1,695.4
Convenient meals	**698.6**	723.4	**1,312.5**	1,329.2
Cereal	**655.5**	684.4	**1,332.2**	1,360.4
Yogurt	**560.3**	595.2	**1,097.4**	1,147.7
Dough	**532.6**	526.5	**866.7**	863.0
Baking mixes and ingredients	**486.6**	501.4	**853.9**	881.0
Pet	**335.2**	-	**678.5**	-
Super-premium ice cream	**202.9**	201.0	**450.3**	431.1
Vegetables	**71.9**	82.7	**137.9**	159.3
Other	**39.9**	50.4	**88.6**	100.8
Total	**$ 4,411.2**	$ 4,198.7	**$ 8,505.2**	$ 7,967.9

(17) New Accounting Pronouncements

In the first quarter of fiscal 2019, we adopted new accounting requirements related to the presentation of net periodic defined benefit pension expense, net periodic postretirement benefit expense, and net periodic postemployment benefit expense (collectively net periodic benefit expense). The new standard requires the service cost component of net periodic benefit expense to be recorded in the same line items as other employee compensation costs within our Consolidated Statements of Earnings. Other components of net periodic benefit expense must be presented separately outside of operating profit in our Consolidated Statements of Earnings. In addition, the new standard requires that only the service cost component of net periodic benefit expense is eligible for capitalization. The new standard requires retrospective adoption of the presentation of net periodic benefit expense and prospective application of the capitalization of the service cost component. For the quarters ended November 25, 2018, and November 26, 2017, the impact of the adoption of this standard on our results of operations was a decrease to our operating profit of $21.0 million and $20.8 million and a corresponding increase to benefit plan non-service income of $21.0 million and $20.8 million, respectively. For the six-month periods ended November 25, 2018, and November 26, 2017, the impact of the adoption of this standard on our results of operations was a decrease to our operating profit of $41.9 million and $41.3 million and a corresponding increase to benefit plan non-service income of $41.9 million and $41.3 million, respectively. There were no changes to our reported segment operating profit.

In the first quarter of fiscal 2019, we adopted new accounting requirements for the recognition of revenue from contracts with customers. Under the new standard, we apply a principles-based five step model to recognize revenue upon the transfer of control of promised goods to customers and in an amount that reflects the consideration for which we expect to be entitled to in exchange for those goods. The principles-based five step model includes: 1) identifying the contract(s) with a customer; 2) identifying the performance obligations in the contract; 3) determining the transaction price; 4) allocating the transaction price to the performance obligations in the contract; and 5) recognizing revenue when (or as) we satisfy a performance obligation.

Our revenues primarily result from contracts with customers, which are generally short-term and have a single performance obligation the delivery of product. We recognize revenue for the sale of packaged foods at the point in time when our performance obligation has been satisfied and control of the product has transferred to our customer, which generally occurs when the shipment is accepted by our customer. Sales include shipping and handling charges billed to the customer and are reported net of variable consideration and consideration payable to our customers, including trade promotion, consumer coupon redemption and other costs, including estimated allowances for returns, unsalable product, and prompt pay discounts. Sales, use, value-added, and other excise taxes are not included in revenue. Trade promotions are recorded using significant judgment of estimated participation and performance levels for offered programs at the time of sale. Differences between estimated expenses and actual costs are recognized as a change in management estimate in a subsequent period. We generally do not allow a right of return. However, on a limited case-by-case basis with prior approval, we may allow customers to return product. In limited circumstances, product returned in saleable condition is resold to other customers or outlets. Receivables from customers generally do not bear interest. Payment terms and collection patterns are short-term, and vary around the world and by channel, and as such, we do not have any significant financing components. Our allowance for doubtful accounts represents our estimate of probable non-payments and credit losses in our existing receivables, as determined based on a review of past due balances and other specific account data. Account balances are written off against the allowance when we deem the amount is uncollectible. See Note 16 for disaggregation of our revenue into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. We do not have material contract assets or liabilities arising from our contracts with customers.

Table of Contents

We utilized a comprehensive approach to evaluate and document the impact of the guidance on our current accounting policies and practices. We did not identify any material differences resulting from applying the new requirements to our revenue contracts. Additionally, we did not identify any significant changes to our business processes, systems, and controls to support recognition and disclosure requirements under the new guidance.

We adopted the requirements of the new standard and subsequent amendments to all contracts in the first quarter of fiscal 2019 using the cumulative effect approach. We recorded a $33.9 million cumulative effect adjustment net of income tax effects to the opening balance of fiscal 2019 retained earnings, a decrease to deferred income taxes of $11.4 million, and an increase to other current liabilities of $45.3 million related to the timing of recognition of certain promotional expenditures.

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 27, 2018 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

Second Quarter Results

In the second quarter of fiscal 2019, net sales increased 5 percent compared to the same period last year, primarily reflecting the addition of Blue Buffalo Pet Products, Inc., (Blue Buffalo). In the second quarter of fiscal 2019, organic net sales decreased 1 percent compared to the same period last year. Operating profit margin of 12.4 percent decreased 450 basis points, primarily driven by impairment charges recorded from certain intangible and manufacturing assets, partially offset by the addition of Blue Buffalo. Adjusted operating profit margin increased 40 basis points to 17.3 percent compared to the same period last year, primarily driven by the addition of Blue Buffalo. Diluted earnings per share of $0.57 decreased 23 percent compared to the second quarter of fiscal 2018 and adjusted diluted earnings per share of $0.85, which excludes certain items affecting comparability, on a constant-currency basis increased 2 percent compared to the second quarter last year. See the Non-GAAP Measures section below for a description of our use of measures not defined by GAAP.

A summary of our consolidated financial results for the second quarter of fiscal 2019 follows:

Quarter Ended Nov. 25, 2018	In millions, except per share	Quarter Ended Nov. 25, 2018 vs. Nov. 26, 2017	Percent of Net Sales	Constant-Currency Growth (a)
Net sales	$ 4,411.2	5 %		
Operating profit	547.0	(23)%	12.4 %	
Net earnings attributable to General Mills	343.4	(20)%		
Diluted earnings per share	$ 0.57	(23)%		

Constant currency net sales growth rate (a)					7 %
Organic net sales growth rate (a)			(1)%		
Total segment operating profit (a)		840.6	9 %		9 %
Adjusted operating profit (a)		765.2	8 %	17.3 %	8 %
Diluted earnings per share, excluding certain items affecting comparability (a)	$	0.85	4 %		2 %

(a) See the Non-GAAP Measures section below for our use of measures not defined by GAAP.

23

Table of Contents

Consolidated **net sales** were as follows:

	Quarter Ended		
	Nov. 25, 2018	Nov. 25, 2018 vs Nov. 26, 2017	Nov. 26, 2017
Net sales (in millions)	$ 4,411.2	5 %	$ 4,198.7
Contributions from volume growth (a)		3 pts	
Net price realization and mix		4 pts	
Foreign currency exchange		(2)pts	

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

The 5 percent increase in net sales in the second quarter of fiscal 2019 reflects the addition of Blue Buffalo, favorable net price realization and mix across all segments and higher contributions from volume growth in the Asia & Latin America segment, partially offset by lower contributions from volume growth in the North America Retail, Europe & Australia and Convenience Stores & Foodservice segments.

Organic net sales decreased 1 percent in the second quarter of fiscal 2019 driven by declining contributions from organic volume growth partially offset by favorable organic net price realization and mix.

Components of organic net sales growth are shown in the following table:

Quarter Ended Nov. 25, 2018 vs. Quarter Ended Nov. 26, 2017	
Contributions from organic volume growth (a)	(3) pts
Organic net price realization and mix	2 pts
Organic net sales growth	(1) pt
Foreign currency exchange	(2) pts
Acquisition and divestiture	8 pts
Net sales growth	5 pts

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

Cost of sales increased $149 million from the second quarter of fiscal 2018 to $2,902 million. The increase was driven by a $73 million increase due to higher volume and a $65 million increase attributable to product rate and mix. We recorded a $12 million net increase in cost of sales related to the mark-to-market valuation of certain commodity positions and grain inventories in the second quarter of fiscal 2019 compared to a net decrease of $4 million in the second quarter of fiscal 2018. We recorded $1 million of restructuring charges in cost of sales and $4 million of restructuring initiative project-related costs in the second quarter of fiscal 2018 (please refer to Note 3 to the Consolidated Financial Statements in Part I, Item 1 of this report).

Selling, general, and administrative (SG&A) expenses increased $18 million to $753 million in the second quarter of fiscal 2019 compared to the same period in fiscal 2018. The increase in SG&A expenses primarily reflects the addition of Blue Buffalo, partially offset by a decrease in media and advertising expense and savings from cost management initiatives. SG&A expenses as a percent of net sales in the second quarter of fiscal 2019 decreased 40 basis points compared with the second quarter of fiscal 2018.

Restructuring, impairment, and other exit costs totaled $209 million in the second quarter of fiscal 2019 compared to $2 million in the same period last year. We recorded impairment charges of $193 million in the second quarter of fiscal 2019 related to the *Progresso*, *Food Should Taste Good*, and *Mountain High* brand intangible assets driven by lower future sales projections in our long-range plans for the businesses supporting these brand intangible assets. During the second quarter of fiscal 2019, we also recorded a $13 million charge related to the impairment of certain manufacturing assets within the North America Retail segment.

Benefit plan non-service income totaled $21 million in each of the second quarter of fiscal 2019 and the second quarter of fiscal 2018. Please refer to Note 17 to the Consolidated Financial Statements in Part I, Item 1 of this report for additional information.

Interest, net for the second quarter of fiscal 2019 totaled $133 million, up $58 million from the second quarter of fiscal 2018, primarily driven by higher average debt balances due to financing for the Blue Buffalo acquisition, and higher rates.

The **effective tax rate** for the second quarter of fiscal 2019 was 24.5 percent compared to 35.9 percent for the second quarter of fiscal 2018. The 11.4 percentage point decrease was primarily due to the net benefit related to the Tax Cuts and Jobs Act (TCJA) and a $42 million prior-period adjustment recorded in the second quarter of fiscal 2018. Our effective tax rate excluding certain items affecting comparability was 23.8 percent in the second quarter of fiscal 2019 compared to 29.3 percent in the second quarter of fiscal 2018. See the Non-GAAP Measures section below for a description of our use of measures not defined by GAAP.

The TCJA includes provisions affecting our fiscal 2019 effective tax rate, including but not limited to: a reduction in the U.S. corporate tax rate on domestic operations to 21 percent; a provision that taxes U.S. allocated expenses and certain income from foreign operations (Global Intangible Low Tax Income or GILTI); a limitation on deductible interest expense; the repeal of the domestic manufacturing deduction; and a limitation on the deductibility of certain executive compensation.

After-tax earnings from joint ventures for the second quarter of fiscal 2019 decreased 8 percent to $22 million compared to $24 million in the same period in fiscal 2018, primarily driven by lower joint venture sales and higher input costs for Häagen-Dazs Japan, Inc. (HDJ). On a constant-currency basis, after-tax earnings from joint ventures decreased 4 percent (see the Non-GAAP Measures section below for a description of our use of measures not defined by GAAP). The components of our joint ventures net sales growth are shown in the following table:

Quarter Ended Nov. 25, 2018 vs. Quarter Ended Nov. 26, 2017	**CPW (a)**	**HDJ**	**Total**
Contributions from volume growth (b)	1 pt	11 pts	
Net price realization and mix	1 pt	(10)pts	
Net sales growth in constant currency	2 pts	1 pt	2 pts
Foreign currency exchange	(5)pts	(1)pt	(4)pts
Net sales growth	(3)pts	Flat	(2)pts

(a) Cereal Partners Worldwide (CPW)

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

Average diluted shares outstanding increased by 24 million in the second quarter of fiscal 2019 from the same period a year ago due to the impact of the share issuance to partially fund the acquisition of Blue Buffalo and option exercises.

Six-Month Results

In the six-month period ended November 25, 2018, net sales increased 7 percent compared to the same period last year, primarily reflecting the addition of Blue Buffalo. Organic net sales were flat in the six-month period ended November 25, 2018. Operating profit margin of 13.5 percent was down 300 basis points from year-ago levels primarily driven by impairment charges recorded for certain intangible and manufacturing assets and the purchase accounting inventory adjustment related to our acquisition of Blue Buffalo. Adjusted operating profit margin decreased 20 basis points to 16.5 percent, primarily driven by higher input costs and the purchase accounting inventory adjustment related to our acquisition of Blue Buffalo. Diluted earnings per share of $1.22 decreased 15 percent in the six-month period ended November 25, 2018, and adjusted diluted earnings per share of $1.56, which excludes certain items affecting comparability, on a constant-currency basis increased 1 percent compared to the same period last year (see the Non-GAAP Measures section below for a description of our use of measures not defined by GAAP).

Table of Contents

A summary of our consolidated financial results for the six-month period ended November 25, 2018, follows:

Six-Month Period Ended Nov. 25, 2018	In millions, except per share	Six-Month Period Ended Nov. 25, 2018 vs. Nov. 26, 2017	Percent of Net Sales	Constant-Currency Growth (a)
Net sales	$ 8,505.2	7 %		
Operating profit	1,148.5	(13) %	13.5 %	
Net earnings attributable to General Mills	735.7	(12) %		
Diluted earnings per share	$ 1.22	(15) %		
Constant currency net sales growth rate (a)				8 %
Organic net sales growth rate (a)		Flat		
Total segment operating profit (a)	1,547.0	8 %		8 %
Adjusted operating profit (a)	1,406.5	6 %	16.5 %	5 %
Diluted earnings per share, excluding certain items affecting comparability (a)	$ 1.56	2 %		1 %

(a) See the Non-GAAP Measures section below for our use of measures not defined by GAAP.

Consolidated **net sales** were as follows:

	Six-Month Period Ended		
	Nov. 25, 2018	Nov. 25, 2018 vs Nov. 26, 2017	Nov. 26, 2017
Net sales (in millions)	$ 8,505.2	7 %	$ 7,967.9
Contributions from volume growth (a)		4 pts	
Net price realization and mix		4 pts	
Foreign currency exchange		(1)pt	

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

The 7 percent increase in net sales for the six-month period ended November 25, 2018, reflects the addition of Blue Buffalo, favorable net price realization and mix across all segments and higher contributions from volume growth in the Asia & Latin America segment, partially offset by lower contributions from volume growth in the North America Retail, Europe & Australia and Convenience Stores & Foodservice segments.

Organic net sales were flat in the six-month period ended November 25, 2018, as favorable organic net price realization and mix was offset by declining contributions from organic volume growth.

Components of organic net sales growth are shown in the following table:

Six-Month Period Ended Nov. 25, 2018 vs.
Six-Month Period Ended Nov. 26, 2017

Contributions from organic volume growth (a)	(2)	pts
Organic net price realization and mix	2	pts
Organic net sales growth	Flat	
Foreign currency exchange	(1)	pt
Acquisition and divestiture	8	pts
Net sales growth	7	pts

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

Table of Contents

Cost of sales increased $444 million from the six-month period ended November 26, 2017, to $5,653 million. The increase was driven by a $220 million increase due to higher volume and a $139 million increase attributable to product rate and mix. We recorded a $53 million charge in the six-month period ended November 25, 2018, related to the fair value adjustment of inventory acquired in the Blue Buffalo acquisition. We recorded $13 million of restructuring charges in the six-month period ended November 26, 2017. We also recorded $1 million of restructuring initiative project-related costs in the six-month period ended November 25, 2018, compared to $5 million of restructuring initiative project-related costs in the same period last year (please refer to Note 3 to the Consolidated Financial Statements in Part I, Item 1 of this report). We recorded a $43 million net increase in cost of sales related to the mark-to-market valuation of certain commodity positions and grain inventories in the six-month period ended November 25, 2018, compared to a net decrease of $6 million in the six-month period ended November 26, 2017.

SG&A expenses increased $58 million to $1,496 million in the six-month period ended November 25, 2018, compared to the same period in fiscal 2018. The increase in SG&A expenses primarily reflects the addition of Blue Buffalo, partially offset by a decrease in media and advertising expense and savings from cost management initiatives. SG&A expenses as a percent of net sales in the six-month period ended November 25, 2018, decreased 50 basis points compared with the same period of fiscal 2018.

Restructuring, impairment, and other exit costs totaled $208 million in the six-month period ended November 25, 2018, compared to $7 million in the same period last year. We recorded impairment charges of $193 million in the second quarter of fiscal 2019 related to the *Progresso*, *Food Should Taste Good*, and *Mountain High* brand intangible assets driven by lower future sales projections in our long-range plans for the businesses supporting these brand intangible assets. During the second quarter of fiscal 2019, we also recorded a $13 million charge related to the impairment of certain manufacturing assets within the North America Retail segment.

Benefit plan non-service income totaled $42 million in the six-month period ended November 25, 2018, compared to $41 million in the same period last year. Please refer to Note 17 to the Consolidated Financial Statements in Part I, Item 1 of this report for additional information.

Interest, net for the six-month period ended November 25, 2018, increased $119 million to $266 million compared to the same period of fiscal 2018, primarily driven by higher average debt balances due to financing for the Blue Buffalo acquisition and higher rates.

The **effective tax rate** for the six-month period ended November 25, 2018, was 23.5 percent compared to 33.4 percent for the same period last year. The 9.9 percentage point decrease was primarily due to the net benefit related to the TCJA and a $42 million prior period adjustment recorded in the second quarter of fiscal 2018. Our effective tax rate excluding certain items affecting comparability was 23.3 percent in the six-month period ended November 25, 2018, compared to 29.9 percent in the same period of fiscal 2018. See the Non-GAAP Measures section below for a description of our use of measures not defined by GAAP.

The TCJA includes provisions affecting our fiscal 2019 effective tax rate, including but not limited to: a reduction in the U.S. corporate tax rate on domestic operations to 21 percent; a provision that taxes U.S. allocated expenses and certain income from foreign operations (GILTI); a limitation on deductible interest expense; the repeal of the domestic manufacturing deduction; and a limitation on the deductibility of certain executive compensation.

After-tax earnings from joint ventures decreased 17 percent to $40 million for the six-month period ended November 25, 2018, compared to $48 million in the same period in fiscal 2018, primarily driven by our $5 million after-tax share of a restructuring charge at CPW and lower joint venture sales and higher input costs for HDJ. On a constant-currency basis, after-tax earnings from joint ventures decreased 14 percent, including the CPW restructuring charge (see the Non-GAAP Measures section below for a description of our use of measures not defined by GAAP). The components of our joint ventures net sales growth are shown in the following table:

Six-month Period Ended November 25, 2018 vs. Six-month Period Ended November 26, 2017	**CPW**	**HDJ**	**Total**
Contributions from volume growth (a)	(1)pt	Flat	
Net price realization and mix	1 pt	(6)pts	
Net sales growth in constant currency	Flat	(6)pts	(1)pts
Foreign currency exchange	(4)pts	Flat	(3)pts
Net sales growth	(4)pts	(6)pts	(4)pts

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

Average diluted shares outstanding increased by 20 million in the six-month period ended November 25, 2018, compared to the same period a year ago due to the impact of the share issuance to partially fund the acquisition of Blue Buffalo and option exercises.

Table of Contents

SEGMENT OPERATING RESULTS

Our businesses are organized into five operating segments: North America Retail; Convenience Stores & Foodservice; Europe & Australia; Asia & Latin America; and Pet. We are reporting the Pet operating segment results on a one-month lag and accordingly, our fiscal 2018 results do not include Pet segment operating results. Please refer to Note 16 of the Consolidated Financial Statements in Part I, Item 1 of this report for a description of our operating segments.

North America Retail Segment Results

North America Retail net sales were as follows:

	Quarter Ended			Six-Month Period Ended		
	Nov. 25, 2018	Nov. 25, 2018 vs Nov. 26, 2017	Nov. 26, 2017	Nov. 25, 2018	Nov. 25, 2018 vs Nov. 26, 2017	Nov. 26, 2017
Net sales (in millions)	$ 2,677.1	(3)%	$ 2,771.8	$ 5,064.9	(3)%	$ 5,210.0
Contributions from volume growth (a)		(4)pts			(4)pts	
Net price realization and mix		1 pt			2 pts	
Foreign currency exchange		Flat			(1)pt	

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

North America Retail net sales decreased 3 percent in each of the second quarter of fiscal 2019 and the six-month period ended November 25, 2018, compared to the same periods in fiscal 2018, reflecting declines in all operating units.

The components of North America Retail organic net sales growth are shown in the following table:

	Quarter Ended Nov. 25, 2018	Six-Month Period Ended Nov. 25, 2018
Contributions from organic volume growth (a)	(4)pts	(4)pts
Organic net price realization and mix	1 pt	2 pts
Organic net sales growth	(3)pts	(2)pts
Foreign currency exchange	Flat	(1)pt
Divestiture (b)	Flat	Flat
Net sales growth	(3)pts	(3)pts

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

(b) Related to the divestiture of North American Green Giant product lines.

North America Retail organic net sales decreased 3 percent in the second quarter of fiscal 2019 compared to the same period in fiscal 2018, driven by a decrease in contributions from organic volume growth partially offset by favorable organic net price realization and mix.

North America Retail organic net sales decreased 2 percent in the six-month period ended November, 25, 2018, compared to the same period in fiscal 2018, driven by a decrease in contributions from organic volume growth partially offset by favorable organic net price realization and mix.

Table of Contents

North America Retail net sales percentage change by operating unit are shown in the following table:

	Quarter Ended Nov. 25, 2018	Six-Month Period Ended Nov. 25, 2018
U.S. Cereal	(5)%	(2)%
U.S. Meals & Baking	(2)	(2)
U.S. Snacks	(4)	(4)
Canada (a)	(7)	(5)
U.S. Yogurt	(4)	(3)
Total	(3)%	(3)%

(a) On a constant currency basis, Canada net sales decreased 3 percent for the second quarter of fiscal 2019 and 2 percent for the six-month period ended November 25, 2018. See the Non-GAAP Measures section below for our use of this measure not defined by GAAP.

Segment operating profit was flat to last year at $620 million in the second quarter of fiscal 2019 compared to $623 million in fiscal 2018, driven by lower SG&A expenses and benefits from cost savings initiatives, offset by lower net sales and higher input costs. Segment operating profit was flat to last year on a constant-currency basis in the second quarter of fiscal 2019 compared to the same period in fiscal 2018 (see the Non-GAAP Measures section below for our use of this measure not defined by GAAP).

Segment operating profit increased 1 percent to $1,168 million in the six-month period ended November 25, 2018, compared to $1,156 million the same period last year, primarily driven by lower SG&A expenses and benefits from cost savings initiatives, partially offset by lower net sales and higher input costs. Segment operating profit increased 1 percent on a constant-currency basis in the six-month period ended November 25, 2018, compared to the same period in fiscal 2018 (see the Non-GAAP Measures section below for our use of this measure not defined by GAAP).

Convenience Stores & Foodservice Segment Results

Convenience Stores & Foodservice net sales were as follows:

	Quarter Ended			Six-Month Period Ended		
	Nov. 25, 2018	Nov. 25, 2018 vs Nov. 26, 2017	Nov. 26, 2017	Nov. 25, 2018	Nov. 25, 2018 vs Nov. 26, 2017	Nov. 26, 2017
Net sales (in millions)	$ 514.4	Flat	$ 512.2	$ 977.6	2 %	$ 959.3
Contributions from volume growth (a)		(3)pts			(2)pts	
Net price realization and mix		3 pts			4 pts	

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

Convenience Stores & Foodservice net sales were flat in the second quarter of fiscal 2019 compared to the same period in fiscal 2018, reflecting higher net sales across Focus 6 platforms driven by favorable net price realization and mix offset by a decrease in contributions from volume growth.

Convenience Stores & Foodservice net sales increased 2 percent in the six-month period ended November 25, 2018, compared to the same period in fiscal 2018, reflecting higher net sales across the portfolio driven by favorable net price realization and mix partially offset by a decrease in contributions from volume growth.

The components of Convenience Stores & Foodservice organic net sales growth are shown in the following table:

	Quarter Ended Nov. 25, 2018	**Six-Month Period Ended Nov. 25, 2018**
Contributions from organic volume growth (a)	(3)pts	(2)pts
Organic net price realization and mix	3 pts	4 pts
Organic net sales growth	Flat	2 pts
Net sales growth	Flat	2 pts

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

29

Table of Contents

Segment operating profit increased 3 percent to $110 million in the second quarter of fiscal 2019 compared to $106 million in the same period last year, primarily driven by positive net price realization and mix and benefits from cost savings initiatives, partially offset by input cost inflation.

Segment operating profit increased 8 percent to $207 million in the six-month period ended November 25, 2018, compared to $191 million in the same period last year, primarily driven by positive net price realization and mix and benefits from cost savings initiatives, partially offset by input cost inflation.

Europe & Australia Segment Results

Europe & Australia net sales were as follows:

	Nov. 25, 2018	Quarter Ended Nov. 25, 2018 vs. Nov. 26, 2017	Nov. 26, 2017	Nov. 25, 2018	Six-Month Period Ended Nov. 25, 2018 vs. Nov. 26, 2017	Nov. 26, 2017
Net sales (in millions)	$ 453.8	(3)%	$ 466.7	$ 954.5	Flat	$ 958.6
Contributions from volume growth (a)		(3)pts			(2)pts	
Net price realization and mix		3 pts			3 pts	
Foreign currency exchange		(3)pts			(1)pt	

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

Europe & Australia net sales decreased 3 percent in the second quarter of fiscal 2019 compared to the same period in fiscal 2018, driven primarily by unfavorable foreign currency exchange and a decrease in contributions from volume growth partially offset by favorable net price realization and mix.

Europe & Australia net sales were flat in the six-month period ended November 25, 2018, compared to the same period in fiscal 2018, as favorable net price realization and mix were offset by a decrease in contributions from volume growth and unfavorable foreign currency exchange.

The components of Europe & Australia organic net sales growth are shown in the following table:

	Quarter Ended Nov. 25, 2018	Six-Month Period Ended Nov. 25, 2018
Contributions from organic volume growth (a)	(3)pts	(2)pts
Organic net price realization and mix	3 pts	3 pts
Organic net sales growth	Flat	1 pt
Foreign currency exchange	(3)pts	(1) pt
Net sales growth	(3)pts	Flat

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

Europe & Australia organic net sales were flat in the second quarter of fiscal 2019 compared to the same period in fiscal 2018, as favorable organic net price realization and mix were offset by a decrease in contributions from organic volume growth.

Europe & Australia organic net sales increased 1 percent in the six-month period ended November 25, 2018, compared to the same period in fiscal 2018, driven primarily by favorable organic net price realization and mix partially offset by a decrease in contributions from organic volume growth.

Segment operating profit decreased 16 percent to $22 million in the second quarter of fiscal 2019 compared to $27 million in the second quarter of fiscal 2018 primarily driven by lower net sales and higher input costs, including currency driven inflation on imported products in certain markets, partially offset by lower SG&A expenses. Segment operating profit decreased 12 percent on a constant-currency basis in the second quarter of fiscal 2019 compared to the same period in fiscal 2018 (see the Non-GAAP Measures section below for our use of this measure not defined by GAAP).

Segment operating profit decreased 1 percent to $57 million in the six-month period ended November 25, 2018, compared to $58 million in the same period of fiscal 2018 primarily driven by higher input costs, including currency-driven inflation on imported products in certain markets, partially offset by lower SG&A expenses. Segment operating profit increased 1 percent on a constant-currency basis in the six-month period ended November 25, 2018, compared to the same period in fiscal 2018 (see the Non-GAAP Measures section below for our use of this measure not defined by GAAP).

Asia & Latin America Segment Results

Asia & Latin America net sales were as follows:

	Quarter Ended			Six-Month Period Ended		
	Nov. 25, 2018	Nov. 25, 2018 vs Nov. 26, 2017	Nov. 26, 2017	Nov. 25, 2018	Nov. 25, 2018 vs. Nov. 26, 2017	Nov. 26, 2017
Net sales (in millions)	$ 430.7	(4)%	$ 448.0	$ 829.7	(1)%	$ 840.0
Contributions from volume growth (a)		2 pts			3 pts	
Net price realization and mix		3 pts			4 pts	
Foreign currency exchange		(9)pts			(8)pts	

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

Asia & Latin America net sales decreased 4 percent in the second quarter of fiscal 2019 compared to the same period last year, driven primarily by unfavorable foreign currency exchange partially offset by favorable net price realization and mix and contributions from volume growth.

Asia & Latin America net sales decreased 1 percent in the six-month period ended November 25, 2018, compared to the same period last year, driven primarily by unfavorable foreign currency exchange partially offset by favorable net price realization and mix and contributions from volume growth.

The components of Asia & Latin America organic net sales growth are shown in the following table:

	Quarter Ended Nov. 25, 2018	Six-Month Period Ended Nov. 25, 2018
Contributions from organic volume growth (a)	2 pts	3 pts
Organic net price realization and mix	3 pts	4 pts
Organic net sales growth	5 pts	7 pts
Foreign currency exchange	(9)pts	(8)pts
Net sales growth	(4)pts	(1)pt

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

Asia & Latin America organic net sales increased 5 percent in the second quarter of fiscal 2019 compared to the same period in fiscal 2018, primarily driven by an increase in organic net price realization and mix and contributions from organic volume growth.

Asia & Latin America organic net sales increased 7 percent in the six-month period ended November 25, 2018, compared to the same period last year, primarily driven by an increase in organic net price realization and mix and contributions from organic volume growth.

Segment operating profit increased 7 percent to $18 million in the second quarter of fiscal 2019 compared to $17 million in the second quarter of fiscal 2018 primarily driven by favorable foreign currency exchange. Segment operating profit decreased 6 percent on a constant-currency basis in the second quarter of fiscal 2019 compared to the same period in fiscal 2018 (see the Non-GAAP Measures section below for our use of this measure not defined by GAAP).

Segment operating profit decreased 6 percent to $30 million in the six-month period ended November 25, 2018, compared to $32 million in the same period last year primarily driven by higher media and advertising expense. Segment operating profit decreased 21 percent on a constant-currency basis in the six-month period ended November 25, 2018, compared to the same period in fiscal 2018 (see the Non-GAAP Measures section below for our use of this measure not defined by GAAP).

Table of Contents

Pet Segment Results

Pet net sales were as follows:

	Quarter Ended		Six-Month Period Ended	
	Nov. 25, 2018	Nov. 26, 2017	Nov. 25, 2018	Nov. 26, 2017
Net sales (in millions)	$ 335.2	$ -	$ 678.5	$ -

Pet net sales and operating profit in the second quarter of fiscal 2019 totaled $335 million and $71 million respectively. Pet operating profit includes $3 million of amortization of the customer list intangible asset.

Pet net sales and operating profit in the six-month period ended November 25, 2018 were $678 million and $85 million respectively. The six-month period ended November 25, 2018 includes results for 7 days of the month of acquisition. Segment operating profit in the six-month period ended November 25, 2018 includes a $53 million purchase accounting adjustment related to inventory acquired and $7 million of amortization of the customer list intangible asset.

UNALLOCATED CORPORATE ITEMS

Unallocated corporate expense totaled $84 million in the second quarter of fiscal 2019 compared to $62 million in the same period in fiscal 2018. We did not record restructuring charges or restructuring initiative project-related costs in cost of sales in the second quarter of fiscal 2019, compared to $1 million of restructuring charges and $4 million of restructuring initiative project-related costs in cost of sales in the same period last year. We recorded a $12 million net increase in expense related to the mark-to-market valuation of certain commodity positions and grain inventories in the second quarter of fiscal 2019 compared to a $4 million net decrease in expense in the same period last year. We recorded $13 million of gains related to certain investment valuation adjustments. We also recorded $7 million of integration costs in the second quarter of fiscal 2019 related to the acquisition of Blue Buffalo. In addition, we recorded a $3 million loss related to the impact of hyperinflationary accounting for our Argentina subsidiary.

Unallocated corporate expense totaled $190 million in the six-month period ended November 25, 2018, compared to $116 million in the same period last year. In the six-month period ended November 25, 2018, we recorded an immaterial amount of restructuring charges and $1 million of restructuring initiative project-related costs in cost of sales compared to $13 million of restructuring charges and $5 million of restructuring initiative project-related costs in cost of sales in the same period last year. We recorded a $43 million net increase in expense related to the mark-to-market valuation of certain commodity positions and grain inventories in the six-month period ended November 25, 2018, compared to a $6 million net decrease in expense in the same period a year ago. We recorded $13 million of gains related to certain investment valuation adjustments. We also recorded $16 million of integration costs in the six-month period ended November 25, 2018, related to the acquisition of Blue Buffalo. In addition, we recorded a $3 million loss related to the impact of hyperinflationary accounting for our Argentina subsidiary.

LIQUIDITY

During the six-month period ended November 25, 2018, cash provided by operations was $1,396 million compared to $1,567 million in the same period last year. The $171 million decrease was primarily driven by a $262 million change in current assets and liabilities and a $105 million decrease in net earnings, including earnings attributable to redeemable and noncontrolling interests, partially offset by a $186 million change in non-cash restructuring, impairment, and other exit costs primarily driven by impairment charges recorded from certain intangible and manufacturing assets. The $262 million change in current assets and liabilities was primarily driven by a $233 million change in the timing of accounts payable.

Cash used by investing activities during the six-month period ended November 25, 2018, was $295 million, compared to $271 million for the same period in fiscal 2018. Investments of $254 million in land, buildings and equipment in the six-month period ended November 25, 2018, decreased $6 million compared to the same period a year ago. In addition, we made $51 million of other investments, primarily by our venture capital fund during the six-month period ended November 25, 2018.

Cash used by financing activities during the six-month period ended November 25, 2018, was $947 million compared to $1,131 million in the same period in fiscal 2018. We had $482 million of net debt repayments in the six-month period ended November 25, 2018, compared to $53 million of net debt issuances in the same period a year ago. Sodiaal International (Sodiaal) made an additional investment of $56 million in our Yoplait SAS subsidiary during the six-month period ended November 25, 2018. We paid $589

Table of Contents

million of dividends in the first six months of fiscal 2019 compared to $565 million in the same period last year. In addition, we paid $600 million in cash to repurchase common stock during the six-month period ended November 26, 2017.

As of November 25, 2018, we had $499 million of cash and cash equivalents held in foreign jurisdictions. As a result of the TCJA, the historic undistributed earnings of our foreign subsidiaries were taxed in the U.S. via the one-time repatriation tax in fiscal 2018. We are re-evaluating our indefinite reinvestment assertion in connection with the TCJA. We recorded a provisional estimate in fiscal 2018 for local country withholding taxes related to certain entities from which we began repatriating undistributed earnings. We plan to finalize our assessment in the third quarter of fiscal 2019.

CAPITAL RESOURCES

Our capital structure was as follows:

In Millions	**Nov. 25, 2018**	**May 27, 2018**
Notes payable	**$ 1,056.3**	$ 1,549.8
Current portion of long-term debt	**1,990.6**	1,600.1
Long-term debt	**12,208.6**	12,668.7
Total debt	**15,255.5**	15,818.6
Redeemable interest	**547.6**	776.2
Noncontrolling interests	**327.6**	351.3
Stockholders equity	**6,651.8**	6,141.1
Total capital	**$ 22,782.5**	$ 23,087.2

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

The following table details the fee-paid committed and uncommitted credit lines we had available as of November 25, 2018:

In Billions	**Facility Amount**	**Borrowed Amount**
Credit facility expiring:		
May 2022	$ 2.7	$ -
June 2019	0.2	-
Total committed credit facilities	2.9	-
Uncommitted credit facilities	0.6	0.2
Total committed and uncommitted credit facilities	$ 3.5	$ 0.2

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 to the holder s capital account balance established in the most recent mark-to-market valuation (currently $252 million). On June 1, 2018, the floating preferred return rate on GMC s Class A Interests was reset to the sum of three-month LIBOR plus 142.5 basis points. The preferred return rate is adjusted every three years through a negotiated agreement with the Class A Interest holder or through a remarketing auction.

We have an 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 third-party holder 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.

We have a 51 percent controlling interest in Yoplait SAS and a 50 percent interest in Yoplait Marques SNC and Liberté Marques Sàrl. Sodiaal holds the remaining interests in each of these entities. We consolidate these entities into our consolidated financial statements. As of November 25, 2018, we recorded Sodiaal s 50 percent interests in Yoplait Marques SNC and Liberté Marques Sàrl as noncontrolling interests, and the redemption value of its 49 percent interest in Yoplait SAS as a redeemable interest on our Consolidated Balance Sheets. These euro- and Canadian dollar-denominated interests are reported in U.S. dollars on our Consolidated Balance Sheets. Sodiaal has the ability to put all or a portion of its redeemable interest to us at fair value once per year, up to three times before December 2024. As of November 25, 2018, the redemption value of the redeemable interest was $548 million, which approximates its fair value.

Table of Contents

During the second quarter of fiscal 2019, Sodiaal made an additional investment of $56 million in Yoplait SAS.

Certain of our long-term debt agreements, our credit facilities, and our noncontrolling interests contain restrictive covenants. As of November 25, 2018, we were in compliance with all of these covenants.

We have $1,991 million of long-term debt maturing in the next 12 months that is classified as current, including $1,150 million of 5.65 percent notes due February 2019, $500 million of 2.2 percent notes due October 2019, and 300.0 million euro-denominated floating-rate notes due March 2019. 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 second quarter of fiscal 2019.

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 27, 2018. The accounting policies used in preparing our interim fiscal 2019 Consolidated Financial Statements are the same as those described in our Form 10-K with the exception of the new accounting requirements adopted in the first quarter of fiscal 2019 related to the presentation of net periodic benefit expense, net periodic postretirement benefit expense, and net periodic postemployment benefit expense and to revenue recognition. Please see Note 17 to the Consolidated Financial Statements in Part I, Item 1 of this report for additional information.

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 November 25, 2018, are the same as those described in our Annual Report on Form 10-K for the fiscal year ended May 27, 2018, with the exception of the new accounting requirements adopted in the first quarter of fiscal 2019 for presentation of net periodic defined benefit pension expense, net periodic postretirement benefit expense and net periodic postemployment benefit expense, and revenue recognition. See Note 17 to the Consolidated Financial Statements in Part I, Item 1 of this report for additional information.

On December 22, 2017, the TCJA was signed into law. The TCJA results in significant revisions to the U.S. corporate income tax system, including a reduction in the U.S. corporate income tax rate, implementation of a territorial system, and a one-time deemed repatriation tax on untaxed foreign earnings. The TCJA also resulted in a U.S. federal statutory rate of 21 percent in fiscal 2019. Generally, the impacts of the new legislation would be required to be recorded in the period of enactment, which for us was the third quarter of fiscal 2018. However, Accounting Standards Update 2018-05: *Income Taxes (Topic 740)* (ASU 2018-05) was issued with guidance allowing for the recognition of provisional amounts in the event that the accounting is not complete and a reasonable estimate can be made. The guidance allows for a measurement period of up to one year from the enactment date to finalize the accounting related to the TCJA which for us will be the third quarter of fiscal 2019. See Note 15 to the Consolidated Financial Statements in Part I, Item 1 of this report for additional information.

We performed our annual goodwill and indefinite-lived intangible assets impairment test as of the first day of the second quarter of fiscal 2019. As a result of lower sales projections in our long-range plans for the businesses supporting the *Progresso*, *Food Should Taste Good*, and *Mountain High* brand intangible assets, we recorded the following impairment charges:

In Millions	Impairment Charge	Fair Value as of Nov. 25, 2018
Progresso	$ 132.1	$ 330.0
Food Should Taste Good	45.1	-
Mountain High	15.4	-
Total	$ 192.6	$ 330.0

Significant assumptions used in that assessment included our long-range cash flow projections for the businesses, royalty rates, weighted average cost of capital rates, and tax rates.

All other intangible asset fair values were substantially in excess of the carrying values, except for the Latin America reporting unit and the *Yoki* brand intangible asset. The excess fair values as of the fiscal 2019 test date of the Latin America reporting unit and the *Yoki* brand intangible asset were as follows:

In Millions		**Carrying Value of Intangible Asset**	**Excess Fair Value as of Fiscal 2019 Test Date**
Latin America	$	209.0	7%
Yoki	$	49.1	10%

While having significant coverage as of our fiscal 2019 assessment date, the *Pillsbury* brand intangible asset and U.S. Yogurt reporting unit had risk of decreasing coverage. We will continue to monitor these businesses for potential impairment.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In August 2017, the Financial Accounting Standards Board (FASB) issued new hedge accounting requirements. The new standard amends the hedge accounting recognition and presentation requirements to better align an entity s risk management activities and financial reporting. The new standard also simplifies the application of hedge accounting guidance. The requirements of the new standard are effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods, which for us is the first quarter of fiscal 2020. Early adoption is permitted. We are in the process of analyzing the impact of this standard on our results of operations and financial position.

In February 2016, the FASB issued new accounting requirements for accounting, presentation and classification of leases. This will result in most leases being capitalized as a right of use asset with a related liability on our Consolidated Balance Sheets. The requirements of the new standard and subsequent amendments are effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods, which for us is the first quarter of fiscal 2020. The requirements of the new standard and subsequent amendments allow for either the modified retrospective transition approach, which requires application of the guidance in all comparative periods presented, or the cumulative effect adjustment approach, which requires application of the guidance at the adoption date. We are currently analyzing the impact of this standard on our results of operations and financial position and assessing our transition approach. We are in the process of implementing lease accounting software, developing a centralized business process, and reviewing our lease portfolio. Based on our assessment to date, we expect this guidance will have a material impact on our Consolidated Balance Sheets due to the amount of our lease commitments but we are unable to reasonably estimate the expected financial impact at this time.

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 we believe the non-GAAP measure provides useful information to investors, and any additional purposes for which we use the non-GAAP measure. These non-GAAP measures should be viewed in addition to, and not in lieu of, the comparable GAAP measure.

Net Sales Growth Rates on Constant-Currency Basis

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

Table of Contents

Net sales growth rates on a constant-currency basis are calculated as follows:

	Percentage Change in Net Sales as Reported	Impact of Foreign Currency Exchange	Percentage Change in Net Sales on Constant-Currency Basis
Quarter Ended Nov. 25, 2018	5 %	(2) pts	7 %
Six-Month Period Ended Nov. 25, 2018	7 %	(1) pt	8 %

Organic Net Sales Growth Rates

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 provide organic net sales growth rates for our consolidated net sales and segment net sales. We believe that organic net sales growth rates provide useful information to investors because they provide transparency to underlying performance in our net sales by excluding the effect that foreign currency exchange rate fluctuations, as well as acquisitions, divestitures, and a 53rd week, when applicable, have on year-to-year comparability. A reconciliation of these measures to reported net sales growth rates, the relevant GAAP measures, are included in our Consolidated Results of Operations and Segment Operating Results discussions in the MD&A above.

Total Segment Operating Profit and Related Constant-Currency Growth Rate

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 16 to the Consolidated Financial Statements in Part I, Item 1 of this report.

Constant-currency total segment operating profit growth is calculated as follows:

	Percentage Change in Total Segment Operating Profit as Reported	Impact of Foreign Currency Exchange	Percentage Change in Total Segment Operating Profit on a Constant-Currency Basis
Quarter Ended Nov. 25, 2018	9 %	Flat	9 %
Six-Month Period Ended Nov. 25, 2018	8 %	Flat	8 %

36

Table of Contents

Adjusted Operating Profit as a Percent of Net Sales (Adjusted Operating Profit Margin) Excluding Certain Items Affecting Comparability

We believe this measure provides useful information to investors because it is important for assessing our operating profit margin on a comparable 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.

	Quarter Ended				
	Nov. 25, 2018			Nov. 26, 2017	
In Millions		Value	Percent of Net Sales		Value	Percent of Net Sales
Operating profit as reported	$	**547.0**	**12.4 %**	$	709.0	16.9 %
Mark-to-market effects (a)		**11.8**	**0.3 %**		(4.5)	(0.1)%
Restructuring charges (b)		**3.6**	**- %**		2.2	- %
Project-related costs (b)		**-**	**- %**		4.2	0.1 %
Acquisition integration costs (c)		**6.8**	**0.2 %**		-	- %
Asset impairments (b)		**205.8**	**4.7 %**		-	- %
Hyperinflationary accounting (d)		**3.2**	**- %**		-	- %
Investment valuation adjustments (e)		**(13.0)**	**(0.3)%**		-	- %
Adjusted operating profit	$	**765.2**	**17.3%**	$	710.9	16.9 %

	Six-Month Period Ended					
		Nov. 25, 2018			Nov. 26, 2017	
In Millions		Value	Percent of Net Sales		Value	Percent of Net Sales
Operating profit as reported	$	**1,148.5**	**13.5 %**	$	1,314.3	16.5 %
Mark-to-market effects (a)		**42.9**	**0.5 %**		(6.3)	(0.1)%
Restructuring charges (b)		**2.4**	**- %**		19.7	0.2 %
Project-related costs (b)		**1.2**	**- %**		5.4	0.1 %
Acquisition integration costs (c)		**15.5**	**0.2 %**		-	- %
Asset impairments (b)		**205.8**	**2.4 %**		-	- %
Hyperinflationary accounting (d)		**3.2**	**- %**		-	- %
Investment valuation adjustments (e)		**(13.0)**	**(0.1)%**		-	- %
Adjusted operating profit	$	**1,406.5**	**16.5 %**	$	1,333.1	16.7 %

(a) 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.
(c) See Note 2 to the Consolidated Financial Statements in Part I, Item 1 of this report.
(d) Represents the impact of hyperinflationary accounting for our Argentina subsidiary.

(e) Represents valuation gains on certain corporate investments.

Table of Contents

Adjusted Operating Profit Growth Excluding Certain Items Affecting Comparability on a Constant-Currency Basis

We believe that this measure provides useful information to investors because it is the operating profit measure we use to evaluate operating profit performance on a comparable year-over-year basis. The adjustments are either items resulting from infrequently occurring events or items that, in management s judgement, significantly affect the year-over-year assessment of operating results. Additionally, the adjustments are evaluated on a constant-currency basis by excluding the effect that foreign currency exchange rate fluctuations have on year-to-year comparability given the volatility in foreign currency exchange rates.

Our adjusted operating profit growth excluding certain items affecting comparability on a constant-currency basis is calculated as follows:

	Quarter Ended Nov. 25, 2018 vs. Nov. 26, 2017	**Six-Months Ended Nov. 25, 2018 vs. Nov. 26, 2017**
Operating profit growth as reported	(23)pts	(13)pts
Mark-to-market effects (a)	2 pts	4 pts
Restructuring charges (b)	1 pt	Flat
Project-related costs (b)	Flat	Flat
Acquisition integration costs (c)	1 pt	1 pt
Asset impairments (b)	29 pts	15 pts
Hyperinflationary accounting (d)	Flat	Flat
Investment valuation adjustments (e)	(2)pts	(1)pt
Adjusted operating profit growth excluding items affecting comparability	8 pts	6 pts
Foreign currency exchange impact	Flat	1 pt
Adjusted operating profit growth, excluding items affecting comparability, on a constant-currency basis	8 pts	5 pts

(a) 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.
(c) See Note 2 to the Consolidated Financial Statements in Part I, Item 1 of this report.
(d) Represents the impact of hyperinflationary accounting for our Argentina subsidiary.
(e) Represents valuation gains on certain corporate investments.

Table of Contents

Diluted EPS Excluding Certain Items Affecting Comparability and Related Constant-Currency Growth Rate

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 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:

	Quarter Ended			Six-Month Period Ended		
Per Share Data	**Nov. 25, 2018**	**Nov. 26, 2017**	**Change**	**Nov. 25, 2018**	**Nov. 26, 2017**	**Change**
Diluted earnings per share, as reported	**$ 0.57**	$ 0.74	(23) %	**$ 1.22**	$ 1.43	(15) %
Tax adjustment (a)	-	0.07		**-**	0.07	
Mark-to-market effects (b)	**0.02**	-		**0.06**	-	
Acquisition integration costs (c)	**0.01**	-		**0.02**	-	
CPW restructuring charges (d)	**-**	-		**0.01**	-	
Restructuring charges (e)	**-**	-		**-**	0.02	
Project-related costs (e)	**-**	0.01		**-**	0.01	
Asset impairments (e)	**0.26**	-		**0.26**	-	
Investment valuation adjustments (f)	**(0.01)**	-		**(0.01)**	-	
Diluted earnings per share, excluding certain	**$ 0.85**	$ 0.82	4 %	**$ 1.56**	$ 1.53	2 %

items affecting comparability		
Foreign currency exchange impact	2 pts	1 pt
Diluted earnings per share growth, excluding certain items affecting comparability, on a constant-currency basis	2 %	1 %

(a) Represents a prior period adjustment recorded in the second quarter of fiscal 2018.
(b) See Note 6 to the Consolidated Financial Statements in Part I, Item 1 of this report.
(c) See Note 2 to the Consolidated Financial Statements in Part I, Item 1 of this report.
(d) The CPW restructuring charges are related to initiatives designed to improve profitability and growth that were approved in fiscal 2018.
(e) See Note 3 to the Consolidated Financial Statements in Part I, Item 1 of this report.
(f) Represents valuation gains on certain corporate investments.

See our reconciliation below of the effective income tax rate as reported to the effective income tax rate excluding certain items affecting comparability for the tax impact of each item affecting comparability.

Constant-Currency After-tax Earnings from Joint Ventures Growth Rates

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

After-tax earnings from joint ventures growth rates on a constant-currency basis is calculated as follows:

	Percentage Change in After-Tax Earnings from Joint Ventures as Reported	**Impact of Foreign Currency Exchange**	**Percentage Change in After-Tax Earnings from Joint Ventures on Constant-Currency Basis**
Quarter Ended Nov. 25, 2018	(5)%	(1) pt	(4)%
Six-Month Period Ended Nov. 25, 2018	(15)%	(1) pt	(14)%

39

Table of Contents

Net Sales Growth Rates for Our Canada Operating Unit on Constant-Currency Basis

We believe that this measure of our Canada operating unit net sales provides useful information to investors because it provides transparency to the underlying performance for the Canada operating unit within our North America Retail segment by excluding the effect that foreign currency exchange rate fluctuations have on year-to-year comparability given volatility in foreign currency exchange markets.

Net sales growth rates for our Canada operating unit on a constant-currency basis are calculated as follows:

	Percentage Change in Net Sales as Reported	Impact of Foreign Currency Exchange	Percentage Change in Net Sales on Constant-Currency Basis
Quarter Ended Nov. 25, 2018	(7)%	(4) pts	(3)%
Six-Month Period Ended Nov. 25, 2018	(5)%	(3) pts	(2)%

Constant-Currency Segment Operating Profit Growth Rates

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

Our segments   operating profit growth rates on a constant-currency basis are calculated as follows:

	Quarter Ended Nov. 25, 2018		
	Percentage Change in Operating Profit as Reported	Impact of Foreign Currency Exchange	Percentage Change in Operating Profit on Constant-Currency Basis
North America Retail	Flat	Flat	Flat
Europe & Australia	(16)%	(4)pts	(12)%
Asia & Latin America	7 %	13 pts	(6)%

	Six-Month Period Ended Nov. 25, 2018		
	Percentage Change in Operating Profit as Reported	Impact of Foreign Currency Exchange	Percentage Change in Operating Profit on Constant-Currency Basis
North America Retail	1 %	Flat	1 %
Europe & Australia	(1)%	(2) pts	1 %
Asia & Latin America	(6)%	15 pts	(21)%

40

Table of Contents

Effective Income Tax Rate Excluding Certain Items Affecting Comparability

We believe this measure provides useful information to investors because it is important for assessing the effective tax rate excluding certain items affecting comparability and presents the income tax effects of certain items affecting comparability.

Effective income tax rates excluding certain items affecting comparability are calculated as follows:

	Quarter Ended				Six-Month Period Ended			
	Nov. 25, 2018		Nov. 26, 2017		Nov. 25, 2018		Nov. 26, 2017	
illions (Except Per Share Data)	Pretax Earnings (a)	Income Taxes	Pretax Earnings (a)	Income Taxes	Pretax Earnings (a)	Income Taxes	Pretax Earnings (a)	Income Taxes
eported	**$435.3**	**$106.6**	$654.9	$234.9	**$924.2**	**$217.3**	$1,208.3	$403
k-to-market effects (b)	**11.8**	**2.7**	(4.5)	(1.6)	**42.9**	**9.9**	(6.3)	(2
tructuring charges (c)	**3.6**	**0.5**	2.2	-	**2.4**	**0.2**	19.7	5
ect-related costs (c)	**-**	**-**	4.2	1.5	**1.2**	**0.3**	5.4	1
uisition integration costs (d)	**6.8**	**1.6**	-	-	**15.5**	**3.6**	-	
adjustment (e)	**-**	**-**	-	(42.2)	**-**	**-**	-	(42
et impairments (c)	**205.8**	**47.4**	-	-	**205.8**	**47.4**	-	
perinflationary accounting (f)	**3.2**	**-**	-	-	**3.2**	**-**	-	
estment valuation adjustments (g)	**(13.0)**	**(3.0)**	-	-	**(13.0)**	**(3.0)**	-	
djusted	**$653.5**	**$155.8**	$656.8	$192.6	**$1,182.2**	**$275.7**	$1,227.1	$366
ctive tax rate:								
eported		**24.5%**		35.9%		**23.5%**		33.4
djusted		**23.8%**		29.3%		**23.3%**		29.9
n of adjustment to income taxes		$ **49.2**		$ (42.3)		**$ 58.4**		$ (36.
rage number of common shares - diluted		**604.5**		580.3		**603.8**		583
act of income tax adjustments on diluted excluding certain items affecting parability		**$0.08**		$(0.07)		**$0.10**		$(0.0

(a) Earnings before income taxes and after-tax earnings from joint ventures.
(b) See Note 6 to the Consolidated Financial Statements in Part I, Item 1 of this report.
(c) See Note 3 to the Consolidated Financial Statements in Part I, Item 1 of this report.
(d) See Note 2 to the Consolidated Financial Statements in Part I, Item 1 of this report.
(e) Represents a prior period adjustment recorded in the second quarter of fiscal 2018.
(f) Represents the impact of hyperinflationary accounting for our Argentina subsidiary.
(g) Represents valuation gains on certain corporate investments.

GLOSSARY

Accelerated depreciation associated with restructured assets. The increase in depreciation expense caused by updating the salvage value and shortening the useful life of depreciable fixed assets to coincide with the end of production under an approved restructuring plan, but only if impairment is not present.

Adjusted operating profit margin. Operating profit adjusted for certain items affecting year-over-year comparability, divided by net sales.

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.

Table of Contents

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.

Fixed charge coverage ratio. The sum of earnings before income taxes and fixed charges (before tax), divided by the sum of the fixed charges (before tax) and interest.

Focus 6 platforms. The Focus 6 platforms for the Convenience Stores & Foodservice segment consist of cereal, yogurt, snacks, frozen meals, biscuits, and baking mixes.

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.

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.

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.

Organic net sales growth. Net sales growth adjusted for foreign currency translation, as well as acquisitions, divestitures and a 53rd week impact, when applicable.

Project-related costs. Costs incurred related to our restructuring initiatives not included in restructuring charges.

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.

TCJA. U.S. Tax Cuts and Jobs Act which was signed into law on December 22, 2017.

Table of Contents

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 and in our reports to stockholders.

The words or phrases will likely result, are expected to, will continue, is anticipated, estimate, plan, project 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, including our acquisition of Blue Buffalo and issues in the integration of Blue Buffalo and retention of key management and employees; unfavorable reaction to our acquisition of Blue Buffalo by customers, competitors, suppliers, and employees; changes in capital structure; changes in the legal and regulatory environment, including tax reform legislation, labeling and advertising regulations, and litigation; 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; effectiveness of restructuring and cost saving initiatives; 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.

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 27, 2018, 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, foreign exchange, commodity, and equity market-risk-sensitive instruments outstanding as of November 25, 2018 was $29 million, $20 million, $2 million, and $2 million, respectively. During the six-month period ended November 25, 2018, the interest rate and foreign exchange value-at-risk decreased by $4 million and $1 million, respectively, while commodity and equity value-at-risk were flat compared to these measures as of May 27, 2018. The value-at-risk for interest rate and foreign exchange positions decreased due to lower market volatility. For additional information, see Item 7A of Part II of our Annual Report on Form 10-K for the fiscal year ended May 27, 2018.

Table of Contents

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 November 25, 2018, 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 Securities and Exchange Commission 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 the quarter ended November 25, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 November 25, 2018:

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)**
August 27, 2018 - September 30, 2018	288	$	46.01	288	39,511,237
October 1, 2018 - October 28, 2018	2,173		42.67	2,173	39,509,064
October 29, 2018 - November 25, 2018	-		-	-	39,509,064
Total	2,461	$	43.06	2,461	39,509,064

(a) The total number of shares purchased represents 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.

Item 6. Exhibits.

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 November 25, 2018, formatted in Extensible Business Reporting Language: (i) Consolidated Statements of Earnings; (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets; (iv) Consolidated Statements of Total Equity and Redeemable Interest; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements.

Table of Contents

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 December 19, 2018

/s/ Kofi A. Bruce
Kofi A. Bruce
Vice President, Controller
(Principal Accounting Officer and Duly Authorized Officer)

46