GENERAL MILLS INC
Form 10-Q
December 20, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED November 27, 2016

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

Commission file number: 001-01185

GENERAL MILLS, INC.

(Exact name of registrant as specified in its charter)

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

(763) 764-7600

(Registrant s telephone number, including area code)

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

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

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

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

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

Number of shares of Common Stock outstanding as of December 13, 2016: 580,011,272 (excluding 174,602,056 shares held in the treasury).

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General Mills, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Earnings

GENERAL MILLS, INC. AND SUBSIDIARIES

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

	Quarter Ended		Six-Month Period Ended	
	Nov. 27, 2016	**Nov. 29, 2015**	**Nov. 27, 2016**	**Nov. 29, 2015**
Net sales	**$ 4,112.1**	$ 4,424.9	**$ 8,020.0**	$ 8,632.8
Cost of sales	**2,592.6**	2,884.3	**5,083.6**	5,537.6
Selling, general, and administrative expenses	**708.1**	772.7	**1,420.3**	1,583.9
Divestitures Loss (Gain)	**13.5**	(199.1)	**13.5**	(199.1)
Restructuring, impairment, and other exit costs	**29.0**	61.3	**87.9**	121.4
Operating profit	**768.9**	905.7	**1,414.7**	1,589.0
Interest, net	**75.5**	73.8	**149.4**	149.1
Earnings before income taxes and after-tax earnings from joint ventures	**693.4**	831.9	**1,265.3**	1,439.9
Income taxes	**227.4**	311.5	**404.0**	510.1
After-tax earnings from joint ventures	**29.8**	23.2	**54.0**	48.9
Net earnings, including earnings attributable to redeemable and noncontrolling interests	**495.8**	543.6	**915.3**	978.7
Net earnings attributable to redeemable and noncontrolling interests	**14.0**	14.1	**24.5**	22.6
Net earnings attributable to General Mills	**$ 481.8**	$ 529.5	**$ 890.8**	$ 956.1
Earnings per share - basic	**$ 0.82**	$ 0.88	**$ 1.50**	$ 1.59
Earnings per share - diluted	**$ 0.80**	$ 0.87	**$ 1.47**	$ 1.56
Dividends per share	**$ 0.48**	$ 0.44	**$ 0.96**	$ 0.88

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Comprehensive Income

GENERAL MILLS, INC. AND SUBSIDIARIES

(Unaudited) (In Millions)

	Quarter Ended		Six-Month Period Ended	
	Nov. 27, 2016	**Nov. 29, 2015**	**Nov. 27, 2016**	**Nov. 29, 2015**
Net earnings, including earnings attributable to redeemable and noncontrolling interests	**$ 495.8**	$ 543.6	**$ 915.3**	$ 978.7
Other comprehensive income (loss), net of tax:				
Foreign currency translation	**(105.7)**	(70.3)	**(25.3)**	(212.5)
Other fair value changes:				
Securities	**(0.1)**	0.1	**0.3**	
Hedge derivatives	**32.1**	0.1	**47.3**	10.4
Reclassification to earnings:				
Hedge derivatives	**(7.8)**	(0.3)	**(10.6)**	0.4
Amortization of losses and prior service costs	**31.8**	35.9	**62.4**	66.8
Other comprehensive income (loss), net of tax	**(49.7)**	(34.5)	**74.1**	(134.9)
Total comprehensive income	**446.1**	509.1	**989.4**	843.8
Comprehensive loss attributable to redeemable and noncontrolling interests	**(43.5)**	(33.6)	**(36.7)**	(16.0)
Comprehensive income attributable to General Mills	**$ 489.6**	$ 542.7	**$ 1,026.1**	$ 859.8

See accompanying notes to consolidated financial statements.

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Consolidated Balance Sheets

GENERAL MILLS, INC. AND SUBSIDIARIES

(In Millions, Except Par Value)

	Nov. 27, 2016 (Unaudited)	May 29, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 809.7**	$ 763.7
Receivables	**1,382.7**	1,360.8
Inventories	**1,525.5**	1,413.7
Prepaid expenses and other current assets	**393.6**	399.0
Total current assets	**4,111.5**	3,937.2
Land, buildings, and equipment	**3,571.3**	3,743.6
Goodwill	**8,679.1**	8,741.2
Other intangible assets	**4,487.4**	4,538.6
Other assets	**752.8**	751.7
Total assets	**$ 21,602.1**	$ 21,712.3
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	**$ 1,938.3**	$ 2,046.5
Current portion of long-term debt	**1,507.6**	1,103.4
Notes payable	**1,421.7**	269.8
Other current liabilities	**1,376.8**	1,595.0
Total current liabilities	**6,244.4**	5,014.7
Long-term debt	**6,542.0**	7,057.7
Deferred income taxes	**1,506.4**	1,399.6
Other liabilities	**1,981.8**	2,087.6
Total liabilities	**16,274.6**	15,559.6
Redeemable interest	**801.7**	845.6
Stockholders equity:		
Common stock, 754.6 shares issued, $0.10 par value	**75.5**	75.5
Additional paid-in capital	**1,179.4**	1,177.0
Retained earnings	**12,931.8**	12,616.5
Common stock in treasury, at cost, shares of 174.4 and 157.8	**(7,529.2)**	(6,326.6)
Accumulated other comprehensive loss	**(2,476.9)**	(2,612.2)
Total stockholders equity	**4,180.6**	4,930.2

Noncontrolling interests	**345.2**	376.9
Total equity	**4,525.8**	5,307.1
Total liabilities and equity	**$ 21,602.1**	$ 21,712.3

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Total Equity and Redeemable Interest

GENERAL MILLS, INC. AND SUBSIDIARIES

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

	$.10 Par Value Common Stock (One Billion Shares Authorized) Issued			Treasury						
	Shares	Par Amount	Additional Paid-In Capital	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity	Redeemable Interest
Balance as of May 31, 2015	754.6	$ 75.5	$ 1,296.7	(155.9)	$ (6,055.6)	$ 11,990.8	$ (2,310.7)	$ 396.0	$ 5,392.7	$ 778.9
Total comprehensive income (loss)						1,697.4	(301.5)	11.2	1,407.1	30.3
Cash dividends declared ($1.78 per share)						(1,071.7)			(1,071.7)	
Shares purchased				(10.7)	(606.7)				(606.7)	
Stock compensation plans (includes income tax benefits of $94.1)			(46.3)	8.8	335.7				289.4	
Unearned compensation related to restricted stock unit awards			(63.3)						(63.3)	
Earned compensation			84.8						84.8	
Increase in redemption value of redeemable interest			(91.5)						(91.5)	91.5
Acquisition of interest in subsidiary			(3.4)					(1.1)	(4.5)	
Distributions to noncontrolling and redeemable interest holders								(29.2)	(29.2)	(55.1)
Balance as of May 29, 2016	754.6	75.5	1,177.0	(157.8)	(6,326.6)	12,616.5	(2,612.2)	376.9	5,307.1	845.6
Total comprehensive income (loss)						890.8	135.3	(7.4)	1,018.7	(29.3)
Cash dividends declared ($0.48 per share)						(575.5)			(575.5)	
Shares purchased				(20.5)	(1,349.9)				(1,349.9)	
Stock compensation plans (includes income tax benefits of $59.7)			36.3	3.9	147.3				183.6	
Unearned compensation related to restricted stock unit awards			(77.3)						(77.3)	
Earned compensation			56.6						56.6	
Increase in redemption value of redeemable interest			(13.2)						(13.2)	13.2
Distributions to noncontrolling and redeemable interest holders								(24.3)	(24.3)	(27.8)
Balance as of Nov. 27, 2016	**754.6**	**$ 75.5**	**$ 1,179.4**	**(174.4)**	**$ (7,529.2)**	**$ 12,931.8**	**$ (2,476.9)**	**$ 345.2**	**$ 4,525.8**	**$ 801.7**

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

GENERAL MILLS, INC. AND SUBSIDIARIES

(Unaudited) (In Millions)

	Six-Month Period Ended Nov. 27, 2016	Six-Month Period Ended Nov. 29, 2015
Cash Flows - Operating Activities		
Net earnings, including earnings attributable to redeemable and noncontrolling interests	**$ 915.3**	$ 978.7
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	**301.1**	292.5
After-tax earnings from joint ventures	**(54.0)**	(48.9)
Distributions of earnings from joint ventures	**31.9**	28.6
Stock-based compensation	**56.2**	52.7
Deferred income taxes	**94.6**	(32.7)
Tax benefit on exercised options	**(59.7)**	(44.7)
Pension and other postretirement benefit plan contributions	**(22.6)**	(22.7)
Pension and other postretirement benefit plan costs	**17.9**	58.9
Divestitures loss (gain)	**13.5**	(199.1)
Restructuring, impairment, and other exit costs	**71.0**	89.8
Changes in current assets and liabilities	**(372.3)**	57.0
Other, net	**(5.3)**	(54.1)
Net cash provided by operating activities	**987.6**	1,156.0
Cash Flows - Investing Activities		
Purchases of land, buildings, and equipment	**(318.3)**	(293.5)
Investments in affiliates, net	**(7.7)**	11.7
Proceeds from disposal of land, buildings, and equipment	**0.4**	1.2
Proceeds from divestitures	**17.5**	822.7
Exchangeable note	**13.0**	
Other, net	**15.1**	(19.1)
Net cash (used) provided by investing activities	**(280.0)**	523.0
Cash Flows - Financing Activities		
Change in notes payable	**1,164.5**	(293.7)
Payment of long-term debt	**(0.1)**	(0.3)
Proceeds from common stock issued on exercised options	**77.0**	64.5
Tax benefit on exercised options	**59.7**	44.7
Purchases of common stock for treasury	**(1,349.9)**	(549.0)
Dividends paid	**(575.5)**	(530.9)
Distributions to noncontrolling and redeemable interest holders	**(4.6)**	(77.2)
Other, net		0.1
Net cash used by financing activities	**(628.9)**	(1,341.8)
Effect of exchange rate changes on cash and cash equivalents	**(32.7)**	(21.6)

Increase in cash and cash equivalents	**46.0**	315.6
Cash and cash equivalents - beginning of year	**763.7**	334.2
Cash and cash equivalents - end of period	**$ 809.7**	$ 649.8
Cash Flow from changes in current assets and liabilities:		
Receivables	**$ (45.3)**	$ (109.9)
Inventories	**(120.7)**	(196.2)
Prepaid expenses and other current assets	**(2.3)**	18.6
Accounts payable	**(19.9)**	56.3
Other current liabilities	**(184.1)**	288.2
Changes in current assets and liabilities	**$ (372.3)**	$ 57.0

See accompanying notes to consolidated financial statements.

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GENERAL MILLS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Background

The accompanying Consolidated Financial Statements of General Mills, Inc. (we, us, our, General Mills, or the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the rules and regulations for reporting on Form 10-Q. Accordingly, they do not include certain information and disclosures required for comprehensive financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature, including the elimination of all intercompany transactions and any noncontrolling and redeemable interests share of those transactions. Operating results for the quarter ended November 27, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending May 28, 2017.

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 29, 2016. 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. Certain terms used throughout this report are defined in the Glossary section below.

(2) Divestitures

During the second quarter of fiscal 2017, we sold our Martel, Ohio manufacturing facility in our Convenience Stores and Foodservice segment and simultaneously entered into a co-packing arrangement with the purchaser. We received $17.5 million in cash, and recorded a pre-tax loss of $13.5 million.

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

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(3) Restructuring Initiatives

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

	Quarter Ended Nov. 27, 2016					Quarter Ended Nov. 29, 2015				
In Millions	Severance	Asset Write-offs	Accelerated Depreciation	Other	Total	Severance	Asset Write-offs	Accelerated Depreciation	Other	Total
Closure of Melbourne, Australia plant	$ 11.3	$	$ 0.7	$	$ 12.0	$	$	$	$	$
Restructuring of certain International product lines	4.1	2.2	(0.3)	0.9	6.9					
Closure of Vineland, New Jersey plant	(0.1)		7.0	0.1	7.0					
Project Compass						2.2			(0.1)	2.1
Project Century	0.2	5.0	5.4	5.3	15.9	25.8	10.1	21.2	23.9	81.0
Total	$ 15.5	$ 7.2	$ 12.8	$ 6.3	$ 41.8	$ 28.0	$ 10.1	$ 21.2	$ 23.8	$ 83.1

	Six-Month Period Ended Nov. 27, 2016					Six-Month Period Ended Nov. 29, 2015				
In Millions	Severance	Asset Write-offs	Accelerated Depreciation	Other	Total	Severance	Asset Write-offs	Accelerated Depreciation	Other	Total
Closure of Melbourne, Australia plant	$ 11.3	$	$ 0.7	$	$ 12.0	$	$	$	$	$
Restructuring of certain International product lines	6.4	35.8	(0.3)	1.4	43.3					
Closure of Vineland, New Jersey plant	12.3		14.0	1.6	27.9					
Project Compass			0.2	0.8	1.0	47.1			6.5	53.6
Project Century	0.5	8.1	14.6	6.9	30.1	28.1	12.5	42.6	28.0	111.2
Project Catalyst						0.2				0.2
Total	$ 30.5	$ 43.9	$ 29.2	$ 10.7	$ 114.3	$ 75.4	$ 12.5	$ 42.6	$ 34.5	$ 165.0

In the second quarter of fiscal 2017, we notified the employees and their representatives of our decision to close our pasta manufacturing facility in Melbourne, Australia in our International segment to improve our margin structure. This action will affect approximately 350 positions, and we expect to incur approximately $34 million of net expenses relating to this action, most of which will be non-cash. We recorded $12.0 million of restructuring charges in the second quarter of fiscal 2017 relating to this action. We expect these actions to be completed by the end of fiscal 2018.

In the first quarter of fiscal 2017, we announced a plan to restructure certain product lines in our International segment. To eliminate excess capacity, we will close our snacks manufacturing facility in Marília, Brazil and cease production operations for meals and snacks at our facility in São Bernardo do Campo, Brazil. We will also cease production of certain underperforming snack products at our facility in Nanjing, China. These and other actions, which are subject to appropriate consultation with employees and their representatives where required by law or practice, will affect approximately 420 positions in our Brazilian operations and approximately 440 positions in our Greater China operations. We expect to incur approximately $46 million of net expenses of which approximately $8 million will be cash. We recorded $6.9 million of restructuring charges in the second quarter of fiscal 2017 and $43.3 million in the six-month period ended November 27, 2016 relating to this action. We expect these actions to be completed by the end of fiscal 2017.

In the first quarter of fiscal 2017, we approved a plan to close our Vineland, New Jersey facility to eliminate excess soup capacity in our U.S. Retail segment. This action will affect approximately 370 positions, and we expect to

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incur approximately $66 million of net expenses, of which approximately $23 million will be cash. We recorded $7.0 million of restructuring charges in the second quarter of fiscal 2017 and $27.9 million in the six-month period ended November 27, 2016 relating to this action. We expect this action to be completed by the end of fiscal 2019.

In the first quarter of fiscal 2016, we approved Project Compass, a restructuring plan designed to enable our International segment to accelerate long-term growth through increased organizational effectiveness and reduced administrative expense. In connection with this project, we expect to eliminate approximately 725 to 775 positions. We expect to incur approximately $58 million of net expenses, all of which will be cash. We recorded $1.0 million of restructuring expenses in the six-month period ended November 27, 2016 relating to this action. We recorded $2.1 million of restructuring charges in the second quarter of fiscal 2016 and $53.6 million in the six-month period ended November 29, 2015. We expect this action to be completed by the end of fiscal 2017.

Project Century (Century) began in fiscal 2015 and is a review of our manufacturing and distribution network to streamline operations and identify potential capacity reductions. As part of Century, in the second quarter of fiscal 2016, we notified the employees and their representatives of our decision to close the dough and dry mix manufacturing facility in our International segment supply chain located in Berwick, United Kingdom. This action will affect approximately 265 positions, and we expect to incur approximately $33 million of net expenses related to this action, of which $12 million will be cash. We recorded $0.5 million of restructuring charges in the second quarter of fiscal 2017 and $2.0 million in the six-month period ended November 27, 2016 relating to this action. We expect these actions to be completed by the end of fiscal 2018.

As part of Century, in the second quarter of fiscal 2016, we notified the employees and their representatives of our decision to close our pasta manufacturing facility located in East Tamaki, New Zealand in our International segment supply chain. This action affected 20 positions, and we incurred less than $1 million of net expenses related to this action, most of which was cash. We recorded $0.4 million of restructuring charges in the six-month period ended November 29, 2015. This action was completed in fiscal 2017.

As part of Century, in the first quarter of fiscal 2016, we approved a restructuring plan to close our cereal and dry dinner manufacturing plant in West Chicago, Illinois in our U.S. Retail segment supply chain. This action will affect approximately 500 positions, and we expect to incur approximately $108 million of net expenses relating to this action, of which approximately $44 million will be cash. We recorded $5.5 million of restructuring charges in the second quarter of fiscal 2017 and $12.9 million in the six-month period ended November 27, 2016 relating to this action. We recorded $64.0 million in the second quarter of fiscal 2016 and the six-month period ended November 29, 2015 relating to this action. We expect this action to be completed by the end of fiscal 2019.

As part of Century, in the first quarter of fiscal 2016, we approved a restructuring plan to close our snacks manufacturing facility in Joplin, Missouri in our U.S. Retail segment supply chain. This action affected approximately 120 positions, and we incurred $6.6 million of net expenses relating to this action, including $2.9 million in the second quarter of fiscal 2016 and $7.8 million in the six-month period ended November 29, 2015, of which less than $1 million was cash. This action was completed in fiscal 2016.

In addition, we recorded restructuring charges of $9.9 million in the second quarter of fiscal 2017, $13.7 million in the second quarter of fiscal 2016, $15.2 million in the six-month period ended November 27, 2016, and $39.0 million in the six-month period ended November 29, 2015 relating to other Century actions previously announced.

During the six-month period ended November 27, 2016, we paid $43.3 million in cash relating to restructuring initiatives.

In addition to restructuring charges, we recorded $11.1 million of project-related costs in cost of sales in the second quarter of fiscal 2017 and $24.9 million in the six-month period ended November 27, 2016. We paid $28.6 million in cash in the six-month period ended November 27, 2016 for project-related costs. We expect to incur approximately $29.5 million of project-related costs in future periods related to our restructuring initiatives.

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

	Quarter Ended		Six-Month Period Ended	
In Millions	Nov. 27, 2016	Nov. 29, 2015	Nov. 27, 2016	Nov. 29, 2015
Cost of sales	**$ 12.8**	$ 21.8	**$ 26.4**	$ 43.6
Restructuring, impairment, and other exit costs	**29.0**	61.3	**87.9**	121.4
Total restructuring charges	**41.8**	83.1	**114.3**	165.0
Project-related costs classified in cost of sales	**$ 11.1**	$ 16.2	**$ 24.9**	$ 29.3

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 29, 2016	$ 73.6	$ 1.5	$ 1.5	$ 76.6
Fiscal 2017 charges, including foreign currency translation	31.2		2.2	33.4
Utilized in fiscal 2017	(37.5)	(1.7)	(2.4)	(41.6)
Reserve balance as of Nov. 27, 2016	**$ 67.3**	**$ (0.2)**	**$ 1.3**	**$ 68.4**

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

(4) Goodwill and Other Intangible Assets

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

In Millions	Nov. 27, 2016	May 29, 2016
Goodwill	**$ 8,679.1**	$ 8,741.2
Other intangible assets:		
Intangible assets not subject to amortization:		
Brands and other indefinite-lived intangibles	**4,125.4**	4,147.5
Intangible assets subject to amortization:		
Franchise agreements, customer relationships, and other finite-lived intangibles	**513.7**	536.9
Less accumulated amortization	**(151.7)**	(145.8)
Intangible assets subject to amortization, net	**362.0**	391.1
Other intangible assets	**4,487.4**	4,538.6
Total	**$ 13,166.5**	$ 13,279.8

Based on the carrying value of finite-lived intangible assets as of November 27, 2016, annual amortization expense for each of the next five fiscal years is estimated to be approximately $27 million.

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The changes in the carrying amount of goodwill during fiscal 2017 were as follows:

In Millions	U.S. Retail	International	Convenience Stores and Foodservice	Joint Ventures	Total
Balance as of May 29, 2016	$ 6,292.9	$ 1,121.0	$ 921.1	$ 406.2	$ 8,741.2
Divestiture			(2.3)		(2.3)
Other activity, primarily foreign currency translation		(40.8)		(19.0)	(59.8)
Balance as of Nov. 27, 2016	**$ 6,292.9**	**$ 1,080.2**	**$ 918.8**	**$ 387.2**	**$ 8,679.1**

The changes in the carrying amount of other intangible assets during fiscal 2017 were as follows:

In Millions	U.S. Retail	International	Joint Ventures	Total
Balance as of May 29, 2016	$ 3,211.7	$ 1,263.9	$ 63.0	$ 4,538.6
Other activity, primarily foreign currency translation	(1.8)	(50.5)	1.1	(51.2)
Balance as of Nov. 27, 2016	**$ 3,209.9**	**$ 1,213.4**	**$ 64.1**	**$ 4,487.4**

Our annual goodwill and indefinite-lived intangible asset testing was performed on the first day of the second quarter of fiscal 2017. As of the assessment date, there was no impairment of any of our goodwill or indefinite-lived intangible assets as their related fair values were substantially in excess of the carrying values, except for the *Immaculate Baking* brand and the Latin America reporting unit. The excess fair value above the carrying value of this brand asset and reporting unit is as follows:

In Millions	Carrying Value	Excess Fair Value Above Carrying Value
Immaculate Baking	$ 12.0	17%
Latin America	$ 523.0	15%

In addition, while having significant coverage as of our fiscal 2017 assessment date, the *Progresso*, *Green Giant* and *Food Should Taste Good* brand assets had risk of decreasing coverage. We will continue to monitor these businesses for potential impairment.

(5) Inventories

The components of inventories were as follows:

In Millions	Nov. 27, 2016	May 29, 2016
Raw materials and packaging	**$ 384.3**	$ 397.3
Finished goods	**1,239.0**	1,163.1
Grain	**102.3**	72.6
Excess of FIFO over LIFO cost	**(200.1)**	(219.3)
Total	**$ 1,525.5**	$ 1,413.7

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(6) Risk Management Activities

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

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

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

Unallocated corporate items for the quarters and six-month periods ended November 27, 2016, and November 29, 2015 included:

In Millions	Quarter Ended Nov. 27, 2016	Quarter Ended Nov. 29, 2015	Six-Month Period Ended Nov. 27, 2016	Six-Month Period Ended Nov. 29, 2015
Net gain (loss) on mark-to-market valuation of certain commodity positions	**$ 3.0**	$ (31.7)	**$ (15.9)**	$ (54.0)
Net loss on commodity positions reclassified from unallocated corporate items to segment operating profit	**14.4**	35.2	**23.7**	62.1
Net mark-to-market revaluation of certain grain inventories	**11.7**	4.2	**4.7**	2.3
Net mark-to-market valuation of certain commodity positions recognized in unallocated corporate items	**$ 29.1**	$ 7.7	**$ 12.5**	$ 10.4

As of November 27, 2016, the net notional value of commodity derivatives was $164.0 million, of which $72.4 million related to energy inputs and $91.6 million related to agricultural inputs. These contracts relate to inputs that generally will be utilized within the next 12 months.

In advance of planned debt financing, during the third quarter of fiscal 2016 and the first quarter of fiscal 2017, we entered into $400 million and $100 million, respectively, of treasury locks due February 15, 2017 with an average fixed rate of 2.0 percent.

As of November 27, 2016, the net notional value of foreign exchange derivatives was $900.0 million.

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 27, 2016, and were Level 1 or Level 2 assets and liabilities in the fair value hierarchy. We did not significantly change our valuation techniques from prior periods.

We offer certain suppliers access to a third party service that allows them to view our scheduled payments online. The third party service also allows suppliers to finance advances on our scheduled payments at the sole discretion of the supplier and the third party. We have no economic interest in these financing arrangements and no direct relationship with the suppliers, the third party, or any financial institutions concerning this service. All of our accounts payable remain as obligations to our suppliers as stated in our supplier agreements. As of November 27, 2016, $560.2 million of our total accounts payable is payable to suppliers who utilize this third party service.

(7) Debt

The components of notes payable were as follows:

In Millions	Nov. 27, 2016	May 29, 2016
U.S. commercial paper	**$ 1,184.9**	$
Financial institutions	**236.8**	269.8
Total	**$ 1,421.7**	$ 269.8

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 27, 2016:

In Billions	Facility Amount	Borrowed Amount
Credit facility expiring:		
May 2021	$ 2.7	$
June 2019	0.2	0.1
Total committed credit facilities	2.9	0.1
Uncommitted credit facilities	0.4	0.1
Total committed and uncommitted credit facilities	$ 3.3	$ 0.2

In fiscal 2016, we entered into a $2.7 billion fee-paid committed credit facility that is scheduled to expire in May 2021. Concurrent with the execution of this credit facility, we terminated our $1.7 billion and $1.0 billion credit facilities.

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 27, 2016.

Long-Term Debt

The fair values and carrying amounts of long-term debt, including the current portion, were $8,347.2 million and $8,049.6 million, respectively, as of November 27, 2016. The fair value of long-term debt was estimated using market quotations and discounted cash flows based on our current incremental borrowing rates for similar types of instruments. Long-term debt is a Level 2 liability in the fair value hierarchy.

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

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

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Certain of our long-term debt agreements contain restrictive covenants. As of November 27, 2016, we were in compliance with all of these covenants.

(8) Redeemable and Noncontrolling Interests

We have a 51 percent controlling interest in Yoplait SAS and a 50 percent interest in Yoplait Marques SNC and Liberté Marques Sàrl. Sodiaal International (Sodiaal) holds the remaining interests in each of the entities. On the acquisition date, we recorded the $904.4 million fair value of Sodiaal s 49 percent euro-denominated interest in Yoplait SAS as a redeemable interest on our Consolidated Balance Sheets. Sodiaal has the ability to put 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 27, 2016, the redemption value of the euro-denominated redeemable interest was $801.7 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 $123.5 million for the six-month period ended November 27, 2016 and $107.6 million for the six-month period ended November 29, 2015.

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

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

Our noncontrolling interests contain restrictive covenants. As of November 27, 2016, we were in compliance with all of these covenants.

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(9) Stockholders Equity

The following tables provide details of total comprehensive income:

	Quarter Ended Nov. 27, 2016					Quarter Ended Nov. 29, 2015				
	General Mills			Noncontrolling Interests	Redeemable Interest	General Mills			Noncontrolling Interests	Redeemable Interest
In Millions	Pretax	Tax	Net	Net	Net	Pretax	Tax	Net	Net	Net
Net earnings, including earnings attributable to redeemable and noncontrolling interests			$ 481.8	$ 6.0	$ 8.0			$ 529.5	$ 3.9	$ 10.2
Other comprehensive income (loss):										
Foreign currency translation	$ (49.6)	$	(49.6)	(18.0)	(38.1)	$ (22.8)	$	(22.8)	(17.5)	(30.0)
Other fair value changes:										
Securities	(0.1)		(0.1)			0.1		0.1		
Hedge derivatives	48.5	(16.0)	32.5		(0.4)	2.1	(1.1)	1.0		(0.9)
Reclassification to earnings:										
Hedge derivatives (a)	(7.0)	0.2	(6.8)		(1.0)	(1.2)	0.2	(1.0)		0.7
Amortization of losses and prior service costs (b)	51.4	(19.6)	31.8			57.7	(21.8)	35.9		
Other comprehensive income (loss)	$ 43.2	$ (35.4)	7.8	(18.0)	(39.5)	$ 35.9	$ (22.7)	13.2	(17.5)	(30.2)
Total comprehensive income (loss)			$ 489.6	$ (12.0)	$ (31.5)			$ 542.7	$ (13.6)	$ (20.0)

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

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

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	Six-Month Period Ended Nov. 27, 2016					Six-Month Period Ended Nov. 29, 2015				
	General Mills			Noncontrolling Interests	Redeemable Interest	General Mills			Noncontrolling Interests	Redeemable Interest
In Millions	**Pretax**	**Tax**	**Net**	**Net**	**Net**	**Pretax**	**Tax**	**Net**	**Net**	**Net**
Net earnings, including earnings attributable to redeemable and noncontrolling interests			**$ 890.8**	**$ 7.8**	**$ 16.7**			$ 956.1	$ 6.5	$ 16.1
Other comprehensive loss:										
Foreign currency translation	**$ 37.0**	**$**	**37.0**	**(15.2)**	**(47.1)**	$ (172.7)	$	(172.7)	(12.2)	(27.6)
Other fair value changes:										
Securities	**0.5**	**(0.2)**	**0.3**							
Hedge derivatives										