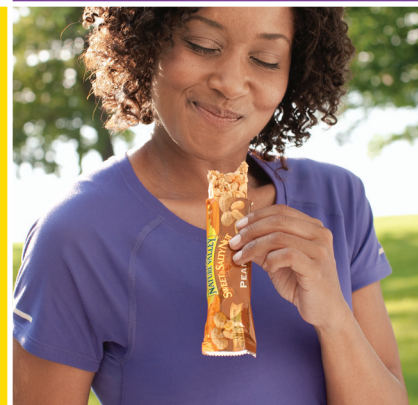


Global Growth and Returns

GENERAL MILLS

2017 ANNUAL REPORT



GLOBAL GROWTH AND RETURNS

At General Mills, we serve the world by making food people love. Our goal is to create market-leading growth to deliver top-tier returns to shareholders. And we'll do that by focusing on our consumers — giving them the foods they love and brands they trust in more than 100 markets around the world.



FISCAL 2017 FINANCIAL HIGHLIGHTS

| <i>In millions, except per share and profit margin data</i> | 52 weeks ended May 28, 2017 | 52 weeks ended May 29, 2016 | Change | Change on a constant currency basis* |
|--|--|--|-------------------|---|
| Net Sales | \$ 15,620 | \$ 16,563 | -6% | |
| Organic Net Sales* | | | -4% | |
| Operating Profit | \$ 2,566 | \$ 2,707 | -5% | |
| Total Segment Operating Profit* | \$ 2,953 | \$ 3,000 | -2% | -1% |
| Operating Profit Margin | 16.4% | 16.3% | +10 basis points | |
| Adjusted Operating Profit Margin* | 18.1% | 16.8% | +130 basis points | |
| Net Earnings Attributable to General Mills | \$ 1,658 | \$ 1,697 | -2% | |
| Diluted Earnings per Share (EPS) | \$ 2.77 | \$ 2.77 | 0% | |
| Adjusted Diluted EPS, Excluding Certain Items Affecting Comparability* | \$ 3.08 | \$ 2.92 | 5% | 6% |
| Average Diluted Shares Outstanding | 598 | 612 | -2% | |
| Dividends per Share | \$ 1.92 | \$ 1.78 | 8% | |

Net Sales

Dollars in millions

| | |
|------|-----------------|
| 2017 | \$15,620 |
| 2016 | \$16,563 |
| 2015 | \$17,630 |
| 2014 | \$17,910 |
| 2013 | \$17,774 |

Total Segment Operating Profit*

Dollars in millions

| | |
|------|----------------|
| 2017 | \$2,953 |
| 2016 | \$3,000 |
| 2015 | \$3,035 |
| 2014 | \$3,154 |
| 2013 | \$3,223 |

Adjusted Diluted Earnings per Share*

Dollars

| | |
|------|---------------|
| 2017 | \$3.08 |
| 2016 | \$2.92 |
| 2015 | \$2.86 |
| 2014 | \$2.82 |
| 2013 | \$2.72 |

*See page 35 for discussion of non-GAAP measures.

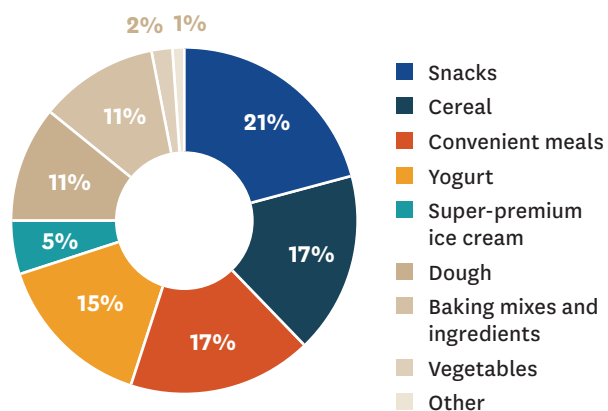


GENERAL MILLS AT A GLANCE

\$15.6 Billion FISCAL 2017 NET SALES

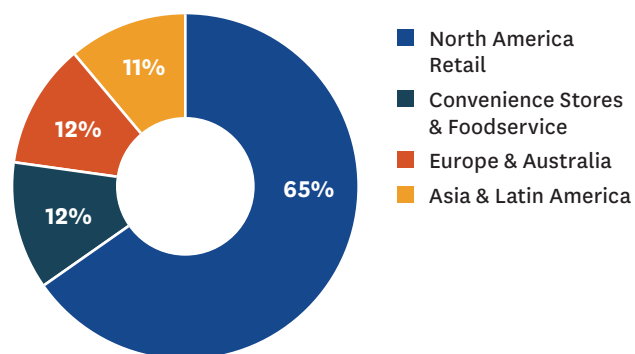
Total Company Net Sales by Product Platform

We are focused on five global growth platforms—cereal, snacks, yogurt, convenient meals and super-premium ice cream. These categories are projected to grow at attractive rates because they are on-trend with consumers’ food interests. Seventy-five percent of our worldwide consolidated net sales are concentrated in these five platforms.



Total Company Net Sales by Segment

In fiscal 2017, we implemented a new global organization structure. Our company is now organized into four operating segments.



\$1.0 Billion FISCAL 2017 JOINT VENTURE NET SALES

In addition to \$15.6 billion of consolidated net sales, our proportionate share of non-consolidated joint venture net sales was \$0.8 billion from Cereal Partners Worldwide (CPW) and \$0.2 billion from Häagen-Dazs Japan (HDJ).



Jeff Harmening (left)
Chief Executive Officer

Ken Powell (right)
Chairman of the Board

TO OUR SHAREHOLDERS

Fiscal 2017 was a year of significant change for General Mills. We implemented a new global organizational structure to enhance our agility in a rapidly changing consumer environment. We also implemented a business plan that aggressively shifted resources to our best growth opportunities and eliminated low-return investments and volume. While these actions were the right thing to do for our company, we did not execute up to our standards in certain areas and our results fell short of our plan. In 2018, we are focused on delivering improved performance, with a balance between sales growth and margin expansion, and building on our track record of superior value creation for our shareholders over the long term.

FISCAL 2017 PERFORMANCE

General Mills consolidated net sales for the fiscal year ended May 28, 2017, declined 6 percent to \$15.6 billion. Organic net sales declined 4 percent.* Total segment operating profit decreased 2 percent to \$2.95 billion. On a constant-currency basis, total segment operating profit declined 1 percent.

Diluted earnings per share were comparable to last year at \$2.77. Adjusted diluted earnings per share, which excludes certain items affecting comparability of results, rose 5 percent to \$3.08. Excluding the impact of foreign exchange, adjusted diluted earnings per share increased 6 percent. Our total shareholder return, which is a combination of stock price appreciation and dividends, declined 6 percent, reflecting our challenging topline performance during the year.

In the third quarter of the fiscal year, we reorganized our reporting segments to align with our new global organization structure. We combined our U.S. Retail operating units and Canada region into a North America Retail segment, due

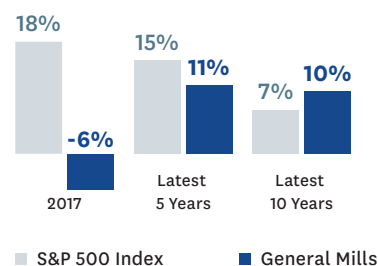
to their similar product portfolio and go-to-market structure. We divided our International segment into two segments: Europe & Australia and Asia & Latin America. Our fourth reporting segment, Convenience Stores & Foodservice, remained unchanged from our previous structure.

Fiscal 2017 net sales for North America Retail, our largest segment, declined 7 percent to \$10.2 billion, due in large part to sales declines in our yogurt, refrigerated dough, cereal and soup businesses. This net sales decline also included the impact of the divestiture of the North American Green Giant vegetables business in fiscal 2016. On an organic basis, net sales declined 5 percent. Segment operating profit decreased 2 percent as reported and on a constant-currency basis, driven by the Green Giant divestiture.

Our Convenience Stores & Foodservice segment posted a 3 percent net sales decline, driven primarily by market index pricing on bakery flour and declines on frozen dough products. Segment operating profit increased 6 percent for the year, exceeding \$400 million. These results reflect our

Total Shareholder Return

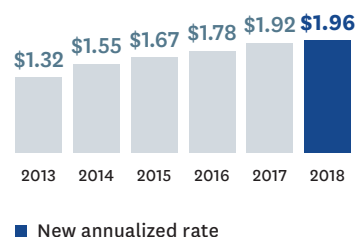
Fiscal years, stock price appreciation plus reinvested dividends, compound annual growth



Source: FactSet

Dividends per Share

Dollars



■ New annualized rate

*See page 35 for a reconciliation of this and other non-GAAP measures used in this letter.



CEREAL GOODNESS AROUND THE GLOBE

We've been gaining share in many cereal markets around the world. From *Lucky Charms* and *Cinnamon Toast Crunch* in the U.S. to *Honey Nut Cheerios* in Canada to new *Lion Wild* cereal in France, we're driving growth by emphasizing the great taste and nutrition of our well-known brands. And we continue to promote the whole grain goodness of our cereals worldwide.



continued focus on six key product platforms in growing foodservice channels: cereal, snacks, yogurt, mixes, biscuits and frozen meals. These businesses, which account for half of the segment's sales and 70 percent of the segment's operating profit, posted combined net sales growth of 2 percent for the year.

Net sales for our Europe & Australia segment declined 9 percent to \$1.8 billion and operating profit declined 18 percent, primarily reflecting unfavorable foreign currency exchange. On an organic basis, segment net sales decreased 4 percent. Segment operating profit decreased 9 percent in constant currency. We posted good growth



EXPANDING OUR YOGURT PORTFOLIO

In the U.S., we're introducing some delicious yogurt products, including new *Oui* by *Yoplait*, a thick and creamy yogurt that builds on *Yoplait*'s French heritage. *Yoplait* yogurt in China is gaining market share, as we expand distribution in existing cities and prepare to enter new ones. And *Carolina* yogurt competes in the large yogurt category in Brazil, with varieties ranging from beverages to decadent, dessert-style yogurts.

on *Häagen-Dazs* ice cream, *Old El Paso* Mexican foods, and *Nature Valley* snacks across the segment. These results were partially offset by declines on our yogurt business in Europe and an extra month of results for *Yoplait* Europe last year, as we aligned that business to our fiscal calendar.

Net sales for our Asia & Latin America segment grew 1 percent and segment operating profit increased 21 percent. Segment net sales increased 3 percent on an organic basis, and segment operating profit grew 20 percent in constant currency. Good growth in China, led by *Häagen-Dazs* ice cream and *Yoplait* yogurt, along with growth in India, was offset by a challenging operating environment in Latin America. We also benefited from an extra month of results in Brazil, as we aligned that business to our fiscal calendar.

In addition to these four operating segments, we hold 50-percent, non-consolidated interests in two joint ventures outside of North America. Constant-currency net sales for Cereal Partners Worldwide (CPW) and *Häagen-Dazs* Japan (HDJ) grew 3 percent and 8 percent, respectively,

in fiscal 2017. Together, these joint ventures contributed \$85 million in after-tax earnings in 2017. This was 6 percent below last year on a constant-currency basis, driven primarily by an asset write-off for CPW, partially offset by volume gains on HDJ.

In fiscal 2017, we returned \$2.7 billion to shareholders through net share repurchases and dividends. We repurchased approximately 25 million shares of common stock, reducing our average number of diluted shares outstanding by 2 percent, which is in line with our longer-term goal. In June 2017, we increased our quarterly dividend rate by 2 percent. The new annualized rate of \$1.96 per share represents a yield of around 3.5 percent at recent prices for General Mills stock. Our goal is to continue to increase dividends as earnings grow.

OUR PRIORITIES FOR FUTURE GROWTH

For the past 150 years, General Mills has been living its purpose of serving the world by making food people love. We aspire to continued growth for our brands and our company.



IT'S ALWAYS SNACK TIME!

Our portfolio of snack bars satisfies consumers everywhere. The *Nature Valley* brand can be found in 90 markets worldwide. We launched *Fiber One* bars in Europe in 2016 and continue to expand distribution. And retail sales for *Lärabar* fruit and nut bars and *EPIC* meat snacks grew by strong double-digit rates in 2017, as we increased distribution for these natural and organic snacks in North America.



General Mills Long-term Growth Model

| Growth Factor | Compound Growth Rate |
|-------------------------------------|----------------------|
| Organic Net Sales | Low single-digit |
| Total Segment Operating Profit | Mid single-digit* |
| Adjusted Diluted Earnings per Share | High single-digit* |
| Dividend Yield | 2 to 3 percent |
| Total Return to Shareholders | Double-digit |

*In constant currency

Our goal is to create market-leading growth that will deliver top-tier returns to shareholders.

We remain committed to our long-term growth model. While the operating environment has been challenging in the short term, over the long run, we believe our businesses can generate low single-digit organic net sales growth, mid single-digit constant-currency total segment operating profit growth and high single-digit growth in adjusted diluted earnings per share on a constant-currency basis. Adding in a dividend yield of between 2 and 3 percent, we should deliver double-digit returns to shareholders over the long term.

To drive future growth, we are focused on our Consumer First strategy where we work to gain a

deep understanding of consumer needs and respond quickly to give them what they want. Whether it's bringing marshmallow news to *Lucky Charms* cereal in the U.S. or providing consumers in China with the creamy yogurt they desire, we have many examples of how this strategy has driven growth across our product portfolio, and we see plenty more opportunities for future growth. We're also making strategic choices about our level of investments and expectations for growth across our businesses. We continue to manage three quarters of our company as a Growth portfolio, where we are focusing the majority of our investments for long-term growth. Our Foundation portfolio represents the remaining quarter of our company and provides strong,

consistent profit and cash generation that helps fund topline growth initiatives. We are making selective investments in our Foundation brands, focusing on strong returns.

With our Consumer First strategy and our Growth and Foundation designations firmly in place, we're focused on the following key priorities for fiscal 2018.

Grow Cereal Globally

According to Euromonitor, cereal is a \$23 billion category worldwide, and it's projected to grow at a low single-digit rate over the next several years. With our North America cereal business and CPW combined, we compete in more than 130 markets around the world and hold leading share positions



MORE OPTIONS FOR TASTY MEALS

Old El Paso Mexican foods are popular worldwide with their zesty flavors, use of fresh ingredients, and innovative products, like new varieties of *Stand 'N Stuff* shells. *Wanchai Ferry* dumplings in China make authentic Chinese meals convenient, and we recently introduced a line for kids. *Totino's* pizza snacks continue to grow in the U.S. with bold flavors and strong consumer support. And watch for *Progresso* organic soup varieties in the upcoming soup season.



in many of them. Wellness and taste news are delivering growth on many of our cereal brands. In fiscal 2018, we have a strong line-up of product news, including new flavors of iconic *Cheerios*, that we'll support with solid levels of consumer investment to grow our global cereal platform.

Innovate to Improve Yogurt Performance

With its combination of great taste and inherent health benefits, the yogurt category is projected to grow at high single-digit rates worldwide. Our U.S. results have been challenging in recent years as our product line hasn't kept pace with consumer

expectations. We believe innovating in new and fast-growing segments of the category is the key to improving our performance in yogurt. In 2016 and 2017, we introduced *Annie's* and *Liberté* organic yogurts. In 2018, we're launching *Oui* by *Yoplait*, a thick and creamy yogurt, based on a French recipe, that brings a new taste and texture to the U.S. market. We also see good growth opportunities outside of North America. Our yogurt platform in China continues to deliver strong results, and we have plans to expand into new cities in 2018.

Invest in High-performing Brands Worldwide

Our *Häagen-Dazs* and *Old El Paso* brands have been posting good growth around the world. In 2018, we'll expand our very successful *Häagen-Dazs* ice cream stick bars into new markets and also introduce mini varieties. We have new *Old El Paso* taco shell varieties coming in the U.S., Europe and Australia. We'll continue to expand distribution on our snack bars, including new flavors of *Nature Valley* granola cups, biscuits and bars. And *Lärabar* fruit and nut bars continue to post

strong double-digit retail sales growth in North America behind increased distribution and strong advertising.

Drive Continued Growth on Natural & Organic Products

Our natural and organic portfolio generates \$1 billion in net sales in North America, and we expect to reach \$1.5 billion in net sales by 2020. *Annie's* is our largest natural and organic brand and now competes in 14 food categories. We continue to add new offerings, including more snacks and macaroni and cheese varieties coming in fiscal 2018. We also continue to expand distribution in Canada, where the brand is only two years old, but growing quickly. And we're investing in smaller natural and organic brands that show great growth potential, such as *EPIC* meat snacks in the U.S.

Manage Foundation Portfolio with Appropriate Investment

Our Foundation brands deliver stable revenue performance and solid earnings and cash flow. We're making opportunistic investments in many of them to keep them competitive

and relevant with consumers. For example, we're launching a line of *Progresso* organic soups for consumers seeking a "better for you" soup option. And we're adding a new rolled pizza crust to our *Pillsbury* refrigerated dough offerings, making homemade pizza even more convenient to prepare.

Building an Agile Organization

The new structure we implemented in 2017 has increased our organizational agility to operate as a truly global food company. We accelerated the global restructuring of our supply chain, organized under new operating segments and streamlined our support functions, allowing for more fluid use of resources and idea sharing around the world. We're also building new capabilities to support our businesses in the future. We're enhancing our e-commerce know-how to capture more growth in this emerging channel. And we continue to invest in strategic revenue management tools to optimize our promotions, prices and mix of products to drive sales growth.

We've entered fiscal 2018 with some significant executive changes. In June 2017, Jeff Harmening was named

Chief Executive Officer. Jeff has more than 20 years of experience with General Mills, running both domestic and international businesses. Ken Powell remains as our Chairman and we thank him for the 10 years he served as our Chief Executive Officer. Ken led us through challenging and exciting times as we grew into a more global food company. Under his leadership as CEO, total returns to General Mills shareholders grew at an 11 percent compound annual rate. We also want to acknowledge Chris O'Leary, Executive Vice President and Chief Operating Officer of our former International segment, and Gary Chu, Senior Vice President and President, Greater China, who announced their retirements this year. We appreciate the contributions they made to our company during their combined 40 years with General Mills. In addition, Bob Ryan and Dorothy Terrell will be retiring from our board in September. They have provided invaluable counsel during their combined 35 years of service to General Mills.

In closing, we want to thank our 38,000 employees around the world for their dedication and commitment to our company. Their talent and skills are what drive our organization and what give us confidence that

we will achieve our performance goals. We also want to thank you, our shareholders, for your investment in General Mills. We are committed to delivering on our performance goals on your behalf and appreciate your confidence in our plans for future growth.



Kendall J. Powell
Chairman of the Board



Jeffrey L. Harmening
Chief Executive Officer

August 1, 2017



COME ÄND GET SOME ICE CREAM

Häagen-Dazs is a leading worldwide brand of super-premium ice cream. Net sales for the brand grew 4 percent in fiscal 2017, driven by the success of stick bars in Europe. We're expanding these bars to more international markets and launching mini-bars in select European markets, too. In China, we posted good sales growth in our shops and in retail outlets with new flavor varieties. And we recently entered Australia and already hold a 40 percent share of the super-premium ice cream category there.



GLOBAL SUSTAINABILITY AT GENERAL MILLS

Throughout our history, General Mills has been making food people love while investing to make the world around us better. We believe that being successful in the marketplace and being a force for good go hand in hand. This belief is more important than ever as our company navigates the enormous changes in our industry and the global economy. Consumer expectations for food companies have never been higher. Consumers are increasingly looking for foods that reflect their values from a company they trust. And we have responded with expanded offerings, new product benefits and increasing transparency about our food.

At the same time, our planet is changing. More than perhaps any other industry, ours relies on nature's bounty for the ingredients in our products. And in order to feed a growing global population, we have to be good stewards of our earth — from farm to fork and beyond. Increasingly, the health of our business depends on the health of the planet.

For more information about our initiatives to stand among the most socially and environmentally responsible food companies in the world, see our Global Responsibility Report available at [GeneralMills.com/Responsibility](https://www.GeneralMills.com/Responsibility).

Our sustainability goal is to protect the resources upon which our business depends. Our company's size, scale and global scope enable us to have a material impact on environmental issues, and we have taken bold actions to advance sustainability.

Here are a few examples:



CLIMATE CHANGE

We have set a goal to **reduce absolute greenhouse gas emissions** across our full value chain by 28 percent by 2025 from 2010 levels and to achieve sustainable emission levels in line with scientific consensus by 2050.



WATER STEWARDSHIP

We will develop **water stewardship plans** for the most material and at-risk watersheds in our global value chain by 2025.



POLLINATORS AND BIODIVERSITY

We are partners with the U.S. Department of Agriculture and The Xerces Society on a project to establish and protect **more than 100,000 acres** of pollinator habitat in the U.S. by the end of 2021.



SUSTAINABLE SOURCING

We remain committed to sustainably sourcing 100 percent of our **10 priority ingredients by 2020**, which represents more than 40 percent of our annual raw material purchases globally.

FINANCIAL REVIEW

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FINANCIAL SUMMARY

MARGIN EXPANSION HELPS FUND OUR FUTURE

For the past several years, we have been increasing our productivity and efficiency to offset input cost inflation and fuel our Consumer First initiatives. While input cost inflation remained low in fiscal 2017, we still expect costs to remain inflationary for the foreseeable future. Holistic Margin Management (HMM) is our company-wide initiative to use productivity savings, mix management and price realization to offset input cost inflation, protect margins and generate funds to reinvest in sales-generating activities. In fiscal 2017, we generated \$390 million in HMM cost savings, and we've been able to hold our gross margin relatively steady over the past five years.

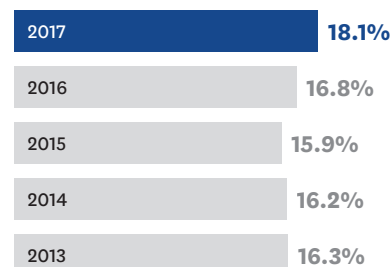
We also have been taking additional actions to streamline our organization, increase our efficiency and generate cost savings. These additional actions combined, including zero-based budgeting initiatives, generated a cumulative \$540 million in savings in fiscal 2017. Our gross margin increased 40 basis points to 35.6 percent of sales. We posted a 50-basis-point increase in adjusted gross margin, which excludes certain items affecting comparability, and adjusted operating profit margin increased 130 basis points to 18.1 percent of sales. We continue to see opportunities for further margin expansion in fiscal 2018. Looking forward, we're focused on delivering a balance of sales growth and margin expansion to deliver top-tier returns to shareholders.

GENERATING CASH

Our businesses have a long history of strong cash generation. In fiscal 2017, our cash flow from operations totaled \$2.3 billion, down 12 percent from last year driven by higher core working capital, changes in income taxes payable, and lower trade and advertising accruals. Over the past five years, we generated a cumulative \$13 billion of operating cash flow. Our free cash flow, which is operating cash flow less capital expenditures, was \$1.6 billion, or 86 percent of our adjusted after-tax earnings in fiscal 2017. We have a goal to convert 95 percent of our adjusted after-tax earnings to free cash on a long-term basis. Our rolling three-year cumulative free cash flow, which balances out the inherent volatility in the annual figures, exceeded our goal in the most recent three-year period with a conversion rate of 97 percent. For fiscal 2018, we expect our cash conversion rate will remain above 95 percent of our adjusted after-tax earnings.

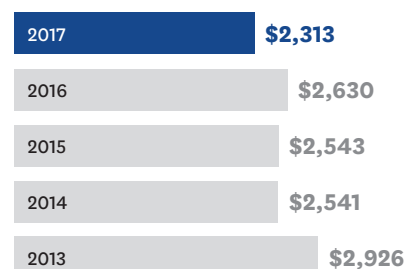
Adjusted Operating Profit Margin*

Percent of net sales



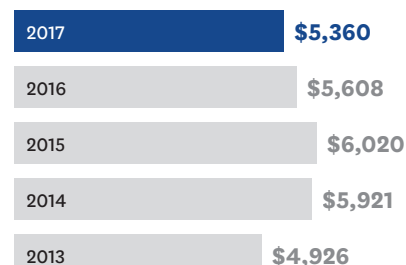
Cash Flow from Operations

Dollars in millions



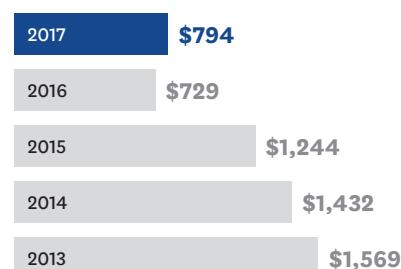
Free Cash Flow*

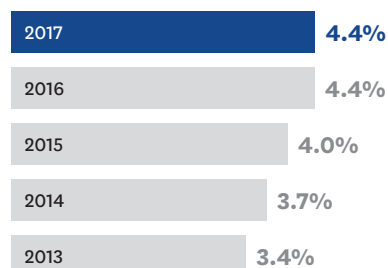
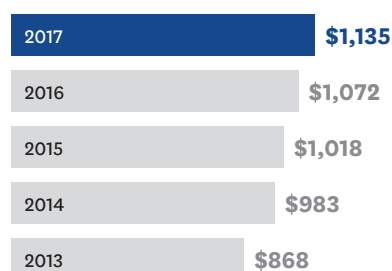
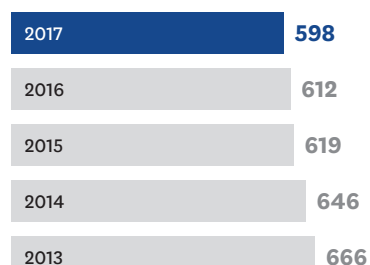
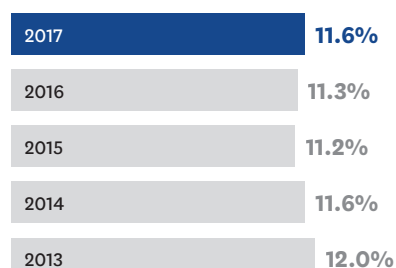
Three-year rolling total, dollars in millions



Core Working Capital

Dollars in millions



Fixed Asset Investment*Percent of net sales***Dividends Paid***Dollars in millions***Average Diluted Shares Outstanding***Shares in millions***Adjusted Return on Average Total Capital****Percent*

Our continued discipline on core working capital, which is accounts receivable plus inventories less accounts payable, has contributed to our operating cash flow. In fiscal 2017, our core working capital increased 9 percent as the timing of receivables and higher inventory balances were partially offset by continued progress on accounts payable. However, over the past five years, we've driven core working capital down by nearly 50 percent. We still see opportunities for further core working capital efficiency, and we expect to reduce our core working capital in fiscal 2018.

USES OF CASH

Our first priority for our cash is investment in growth opportunities and cost-savings projects we've identified across our businesses. In fiscal 2017, fixed asset investments totaled \$684 million, largely in line with our long-term target of 4 percent of net sales. In fiscal 2018, we expect to invest another \$650 million in capital expenditures to fund projects to increase our efficiency and enable growth.

After capital investment, we prioritize cash returns to shareholders through dividends and share repurchases. Cash dividends to shareholders totaled \$1.1 billion in fiscal 2017, a 6 percent increase from last year. Over the past five years, our dividends per share have grown at a 10 percent compound rate. In June 2017, our board of directors approved an increase to our quarterly dividend rate, effective with the August 2017 payment. The new annualized dividend rate of \$1.96 per share represents a 2 percent increase over the annual dividend paid in fiscal 2017. General Mills and its predecessor firm have paid regular dividends for 118 years. Our goal is to continue increasing dividends over time, in line with our earnings growth.

We also return cash to shareholders through share repurchases. Net share repurchases totaled more than \$1.5 billion in 2017. We reduced average diluted shares outstanding by 2 percent, in line with our long-term share-reduction target. For fiscal 2018, we are targeting a net reduction of 1 to 2 percent in average diluted shares outstanding. We have a goal of returning 90 percent of our free cash flow to shareholders through dividends and share repurchases. Over the past several years, we have exceeded our goal with 116 percent of free cash flow returned to shareholders between fiscal 2015 and 2017.

Net income growth and disciplined uses of cash are the drivers of increasing returns on average total capital. In fiscal 2017, our return on average total capital was 12.7 percent. Adjusted return on average total capital increased 30 basis points to 11.6 percent due to continued prudent capital management.

*See page 35 for a reconciliation of this and other non-GAAP measures used in this summary.

SELECTED FINANCIAL DATA

The following table sets forth selected financial data for each of the fiscal years in the five-year period ended May 28, 2017:

| In Millions, Except Per Share Data, Percentages and Ratios | Fiscal Year | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| | 2017 | 2016 | 2015 (a) | 2014 | 2013 |
| Operating data: | | | | | |
| Net sales | \$ 15,619.8 | \$ 16,563.1 | \$ 17,630.3 | \$ 17,909.6 | \$ 17,774.1 |
| Gross margin ^(b) | 5,563.8 | 5,829.5 | 5,949.2 | 6,369.8 | 6,423.9 |
| Selling, general, and administrative expenses | 2,801.3 | 3,118.9 | 3,328.0 | 3,474.3 | 3,552.3 |
| Operating profit | 2,566.4 | 2,707.4 | 2,077.3 | 2,957.4 | 2,851.8 |
| Total segment operating profit ^(c) | 2,952.6 | 2,999.5 | 3,035.0 | 3,153.9 | 3,222.9 |
| Divestitures loss (gain) | 13.5 | (148.2) | — | (65.5) | — |
| Net earnings attributable to General Mills | 1,657.5 | 1,697.4 | 1,221.3 | 1,824.4 | 1,855.2 |
| Advertising and media expense | 623.8 | 754.4 | 823.1 | 869.5 | 895.0 |
| Research and development expense | 218.2 | 222.1 | 229.4 | 243.6 | 237.9 |
| Average shares outstanding: | | | | | |
| Diluted | 598.0 | 611.9 | 618.8 | 645.7 | 665.6 |
| Earnings per share: | | | | | |
| Diluted | \$ 2.77 | \$ 2.77 | \$ 1.97 | \$ 2.83 | \$ 2.79 |
| Diluted, excluding certain items affecting comparability ^(c) | \$ 3.08 | \$ 2.92 | \$ 2.86 | \$ 2.82 | \$ 2.72 |
| Operating ratios: | | | | | |
| Gross margin as a percentage of net sales | 35.6% | 35.2% | 33.7% | 35.6% | 36.1% |
| Selling, general, and administrative expenses as a percentage of net sales | 17.9% | 18.8% | 18.9% | 19.4% | 20.0% |
| Operating profit as a percentage of net sales | 16.4% | 16.3% | 11.8% | 16.5% | 16.0% |
| Adjusted operating profit | | | | | |
| as a percentage of net sales ^{(b)(c)} | 18.1% | 16.8% | 15.9% | 16.2% | 16.3% |
| Total segment operating profit | | | | | |
| as a percentage of net sales ^(c) | 18.9% | 18.1% | 17.2% | 17.6% | 18.1% |
| Effective income tax rate | 28.8% | 31.4% | 33.3% | 33.3% | 29.2% |
| Return on average total capital ^(b) | 12.7% | 12.9% | 9.1% | 12.5% | 13.4% |
| Adjusted return on average total capital ^{(b)(c)} | 11.6% | 11.3% | 11.2% | 11.6% | 12.0% |
| Balance sheet data: | | | | | |
| Land, buildings, and equipment | \$ 3,687.7 | \$ 3,743.6 | \$ 3,783.3 | \$ 3,941.9 | \$ 3,878.1 |
| Total assets | 21,812.6 | 21,712.3 | 21,832.0 | 23,044.7 | 22,505.7 |
| Long-term debt, excluding current portion | 7,642.9 | 7,057.7 | 7,575.3 | 6,396.6 | 5,901.8 |
| Total debt ^(b) | 9,481.7 | 8,430.9 | 9,191.5 | 8,758.9 | 7,944.8 |
| Cash flow data: | | | | | |
| Net cash provided by operating activities | \$ 2,313.3 | \$ 2,629.8 | \$ 2,542.8 | \$ 2,541.0 | \$ 2,926.0 |
| Capital expenditures | 684.4 | 729.3 | 712.4 | 663.5 | 613.9 |
| Free cash flow ^{(b)(c)} | 1,628.9 | 1,900.5 | 1,830.4 | 1,877.5 | 2,312.1 |
| Fixed charge coverage ratio ^(b) | 7.26 | 7.40 | 5.54 | 8.04 | 7.62 |
| Operating cash flow to debt ratio ^(b) | 24.4% | 31.2% | 27.7% | 29.0% | 36.8% |
| Share data: | | | | | |
| Low stock price | \$ 55.91 | \$ 54.12 | \$ 48.86 | \$ 46.86 | \$ 37.55 |
| High stock price | 72.64 | 65.36 | 57.14 | 54.40 | 50.93 |
| Closing stock price | 57.32 | 62.87 | 56.15 | 53.81 | 48.98 |
| Cash dividends per common share | 1.92 | 1.78 | 1.67 | 1.55 | 1.32 |
| Number of full- and part-time employees | 38,000 | 39,000 | 42,000 | 43,000 | 41,000 |

(a) Fiscal 2015 was a 53-week year; all other fiscal years were 52 weeks.

(b) See "Glossary" on page 89 of this report for definition.

(c) See "Non-GAAP Measures" on page 35 of this report for our discussion of this measure not defined by generally accepted accounting principles.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE OVERVIEW

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

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

Our long-term growth objectives are to consistently deliver:

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

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

Fiscal 2017 was a year of significant change for General Mills. We implemented a new global organizational structure to enhance our agility in a rapidly changing consumer environment. We expanded our global supply chain restructuring initiative to further increase our efficiency. We also implemented a business plan that aggressively shifted resources to our best growth opportunities and eliminated low-return investments and volume. While these actions were the right thing to do for our company, we did not execute up to our standards in certain areas and our results did not meet our expectations. Consolidated net sales

and total segment operating profit growth fell short of our plans, largely because of competitive price gaps in our North American Retail segment. We underestimated the impact that our aggressive reductions in promotional spending, implemented early in the fiscal year, would have on our net pricing relative to competitors. The gaps were most pronounced in the U.S. Meals & Baking operating unit, and competitive activity also significantly impacted U.S. Yogurt. We took corrective actions to improve our performance in the second half of fiscal 2017, but it was not sufficient to stem the early declines. Yogurt in the Europe & Australia segment also did not meet expectations as competitive pressure from smaller branded players increased significantly. Excluding yogurt, the segment's net sales and share increased driven by ice cream and snack bars innovation and improved merchandising performance. In the Convenience Stores & Foodservice segment, segment operating profit grew driven by lower input costs and benefits from cost savings initiatives. Net sales for the Focus 6 platforms grew modestly, but were more than offset by market index pricing on flour. In the Asia & Latin America segment, macroeconomic weakness in Latin America and the Middle East created a challenging environment while greater China returned to net sales growth, including contributions from the new Yoplait business. We continued to realize planned benefits from our numerous restructuring initiatives and cost reduction efforts in our supply chain and administrative areas which helped us to increase our adjusted operating profit margin and adjusted diluted earnings per share (EPS) in fiscal 2017.

Our consolidated net sales for fiscal 2017 declined 6 percent to \$15.6 billion, primarily driven by declining contributions from volume, including the impact of the divestiture of the North American Green Giant product lines (Green Giant). On an organic basis, net sales decreased 4 percent. Operating profit of \$2.6 billion decreased 5 percent. Total segment operating profit of \$3.0 billion declined 2 percent and declined 1 percent on a constant-currency basis. Diluted EPS of \$2.77 was flat compared to fiscal 2016. Adjusted diluted EPS, which excludes certain items affecting comparability of results, rose 5 percent to \$3.08 per share and increased 6 percent on a constant-currency basis. Our return on average total capital was 12.7 percent, and adjusted return on average total capital increased 30 basis points to 11.6 percent and increased 40 basis points on a constant-currency basis (See the "Non-GAAP Measures"

section below for discussion of total segment operating profit, adjusted diluted EPS, organic net sales growth rate, constant-currency total segment operating profit growth rate, constant-currency adjusted diluted EPS growth rate, and adjusted return on average total capital, which are not defined by generally accepted accounting principles (GAAP)).

Net cash provided by operations totaled \$2.3 billion in fiscal 2017 at a conversion rate of 136 percent of net earnings, including earnings attributable to redeemable and noncontrolling interests. This cash generation supported capital investments totaling \$684 million, and our resulting free cash flow was \$1.6 billion at a conversion rate of 86 percent of adjusted net earnings, including earnings attributable to redeemable and noncontrolling interests. We also returned significant cash to shareholders through a 6 percent dividend increase and share repurchases totaling \$1,652 million. Total cash returned to shareholders represented 164 percent of our free cash flow (see the “Non-GAAP Measures” section below for a description of our use of measures not defined by GAAP).

A detailed review of our fiscal 2017 performance appears below in the section titled “Fiscal 2017 Consolidated Results of Operations.”

We remain committed to our Consumer First strategy and our focus on driving growth and returns for our shareholders. Our top priority in fiscal 2018 is to make significant strides toward returning our business to sustainable topline growth. Our fiscal 2018 plans call for investment in product news and innovation to accelerate growth for businesses where we have positive momentum, and to improve those that are underperforming. We will also increase investment in capabilities like e-commerce and Strategic Revenue Management, which are critical to future growth. We will continue to prioritize resources against our Growth platforms, where we see the strongest profitable growth potential. And we will make selective investments in our Foundation brands while focusing on profitability and cash generation.

We plan to continue to drive efficiency in fiscal 2018, including delivering approximately \$390 million in supply chain productivity savings through our ongoing Holistic Margin Management (HMM) efforts. We also expect to deliver approximately \$160 million in incremental savings from our other restructuring and cost-reduction initiatives, which equates to approximately \$700 million in savings versus fiscal 2015 levels.

These savings should more than offset our estimate of 3 percent input cost inflation.

This cost management discipline has helped us significantly expand our adjusted operating profit margin over the past two years. We continue to see opportunities for further margin expansion, including an increase in adjusted operating profit margin in fiscal 2018, but we will moderate the pace of expansion as we invest to restore topline growth. Looking forward, we are focused on delivering a balance of sales growth and margin expansion, along with strong cash conversion and cash returns, to create top-tier returns for our shareholders.

With these assumptions in mind:

- We expect fiscal 2018 organic net sales to decline between 1 and 2 percent from fiscal 2017 levels.
- We expect fiscal 2018 total segment operating profit will be in a range between flat and up 1 percent on a constant-currency basis.
- We expect fiscal 2018 adjusted diluted EPS to increase 1 to 2 percent in constant currency from the base of \$3.08 earned in fiscal 2017.
- Our plans call for continued strong cash returns to shareholders. The current annualized dividend rate of \$1.96 per share is up 2 percent from the annual dividend paid in fiscal 2017. Share repurchases in fiscal 2018 are expected to result in a net reduction in average diluted shares outstanding of approximately 1 to 2 percent.

See the “Non-GAAP Measures” section below for a description of our use of measures not defined by GAAP.

Certain terms used throughout this report are defined in a glossary on page 89 of this report.

FISCAL 2017 CONSOLIDATED RESULTS OF OPERATIONS

Fiscal 2017 includes an additional month of results from General Mills Brasil Alimentos Ltda (Yoki) (please refer to Note 1 to the Consolidated Financial Statements on page 51 of this report).

In fiscal 2017, operating results reflected challenging net sales performance. However, we continued to make progress against our cost savings and margin expansion initiatives. The net sales decline of 6 percent was driven by declining contributions from volume in the North America Retail and Europe & Australia segments including the impact of the divestiture of Green Giant in fiscal 2016, which were partially offset by favorable

net price realization and mix. Operating profit margin of 16.4 percent was up 10 basis points from year-ago levels primarily driven by benefits from cost savings and spending optimization initiatives, and favorable net price realization, partially offset by the gain from the Green Giant divestiture. Adjusted operating profit margin increased 130 basis points to 18.1 percent, driven by benefits from cost savings and spending optimization initiatives and favorable net price realization. Diluted earnings per share of \$2.77 was flat to fiscal 2016 and adjusted diluted EPS, which excludes certain items affecting comparability, on a constant-currency basis increased 6 percent compared to fiscal 2016 (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 fiscal 2017 follows:

| Fiscal 2017 | In millions, except per share | Fiscal 2017 vs. Fiscal 2016 | Percent of Net Sales | Constant-Currency Growth ^(a) |
|---|-------------------------------|-----------------------------|----------------------|---|
| Net sales | \$ 15,619.8 | (6)% | | |
| Operating profit | 2,566.4 | (5)% | 16.4% | |
| Net earnings attributable to General Mills | 1,657.5 | (2)% | | |
| Diluted EPS | \$ 2.77 | Flat | | |
| Organic net sales growth rate ^(a) | | (4)% | | |
| Total segment operating profit ^(a) | 2,952.6 | (2)% | | (1)% |
| Adjusted operating profit margin ^(a) | | | 18.1% | |
| Diluted EPS, excluding certain items affecting comparability ^(a) | \$ 3.08 | 5% | | 6% |

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

Consolidated **net sales** were as follows:

| | Fiscal 2017 | Fiscal 2017 vs. Fiscal 2016 | Fiscal 2016 |
|---|-------------|-----------------------------|-------------|
| Net sales (in millions) | \$ 15,619.8 | (6)% | \$ 16,563.1 |
| Contributions from volume growth ^(a) | | (8) pts | |
| Net price realization and mix | | 3 pts | |
| Foreign currency exchange | | (1) pt | |

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

The 6 percent decline in net sales primarily reflected lower organic net sales, unfavorable foreign currency exchange, and the Green Giant divestiture in fiscal 2016 (please refer to Note 3 to the Consolidated Financial Statements on page 55 of this report).

Organic net sales declined 4 percent driven by volume declines in the North America Retail and Europe & Australia segments which were partially offset by positive net price realization and mix. To improve comparability of results from period to period, organic net sales exclude the impacts of foreign currency exchange rate fluctuations, as well as acquisitions, divestitures, and a 53rd week of results, when applicable.

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

| | Fiscal 2017 vs. Fiscal 2016 |
|---|-----------------------------|
| Contributions from organic volume growth ^(a) | (7) pts |
| Organic net price realization and mix | 3 pts |
| Organic net sales growth | (4) pts |
| Foreign currency exchange | (1) pt |
| Acquisitions and divestitures ^(b) | (1) pt |
| Net sales growth | (6) pts |

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

(b) Primarily the Green Giant divestiture in fiscal 2016 (please refer to Note 3 to the Consolidated Financial Statements on page 55 of this report).

Cost of sales decreased \$678 million in fiscal 2017 to \$10,056 million. The decrease included an \$814 million decrease attributable to lower volume and a \$137 million increase attributable to product rate and mix. We recorded a \$14 million net decrease in cost of sales related to mark-to-market valuation of certain commodity positions and grain inventories as described in Note 7 to the Consolidated Financial Statements on page 61 of this report, compared to a net decrease of \$63 million in fiscal 2016. In fiscal 2017, we recorded \$42 million of restructuring charges in cost of sales compared to \$78 million in fiscal 2016. We also recorded \$44 million of restructuring initiative project-related costs in cost of sales in fiscal 2017 compared to \$58 million in fiscal 2016 (please refer to Note 4 to the Consolidated Financial Statements on page 55 of this report).

Gross margin declined 5 percent in fiscal 2017 versus fiscal 2016. Gross margin as a percent of net sales of 36 percent increased 40 basis points compared to fiscal 2016.

Selling, general and administrative (SG&A) expenses decreased \$318 million to \$2,801 million in fiscal 2017 versus fiscal 2016 primarily due to a 17 percentage point decrease in media and advertising expense and cost savings initiatives. SG&A expenses as a percent of net sales decreased 90 basis points compared to fiscal 2016.

During fiscal 2017, we recorded a \$14 million divestiture loss from the sale of our Martel, Ohio manufacturing facility. Divestiture net gain totaled \$148 million

in fiscal 2016 primarily from the sale of Green Giant (please refer to Note 3 of the Consolidated Financial Statements on page 55 of this report).

Restructuring, impairment, and other exit costs totaled \$183 million in fiscal 2017, compared to \$151 million in fiscal 2016, and \$284 million in fiscal 2015.

Total charges associated with our restructuring initiatives recognized in fiscal 2017, 2016 and 2015 consisted of the following:

| In Millions | As Reported | | | | | | Estimated | | | | |
|--|-------------|---------|-------------|---------|-------------|---------|-----------|-------|--------|-------|------------------------|
| | Fiscal 2017 | | Fiscal 2016 | | Fiscal 2015 | | Future | | Total | | Savings ^(b) |
| | Charge | Cash | Charge | Cash | Charge | Cash | Charge | Cash | Charge | Cash | |
| Global reorganization | \$ 72.1 | \$ 20.0 | \$ — | \$ — | \$ — | \$ — | \$ 3 | \$ 55 | \$ 75 | \$ 75 | |
| Closure of Melbourne, Australia plant | 21.9 | 1.6 | — | — | — | — | 12 | 1 | 34 | 3 | |
| Restructuring of certain international product lines | 45.1 | 10.3 | — | — | — | — | (3) | (10) | 42 | — | |
| Closure of Vineland, New Jersey plant | 41.4 | 7.3 | — | — | — | — | 17 | 12 | 58 | 19 | |
| Project Compass | (0.4) | 12.8 | 54.7 | 36.1 | — | — | — | 5 | 54 | 54 | |
| Project Century | 44.0 | 49.4 | 182.6 | 34.1 | 181.8 | 12.0 | 6 | 48 | 414 | 143 | |
| Project Catalyst | — | 1.3 | (7.5) | 47.8 | 148.4 | 45.0 | — | — | 141 | 94 | |
| Combination of certain operational facilities | — | 5.1 | — | 4.5 | 13.9 | 6.5 | 1 | (2) | 15 | 14 | |
| Other | — | — | — | 0.1 | (0.6) | 0.1 | — | — | — | — | |
| Total restructuring charges ^(a) | 224.1 | 107.8 | 229.8 | 122.6 | 343.5 | 63.6 | 36 | 109 | 833 | 402 | |
| Project-related costs classified in cost of sales | 43.9 | 46.9 | 57.5 | 54.5 | 13.2 | 9.7 | 15 | 19 | 130 | 130 | |
| Restructuring charges and project-related costs | \$268.0 | \$154.7 | \$287.3 | \$177.1 | \$356.7 | \$ 73.3 | \$51 | \$128 | \$963 | \$532 | |
| Future cumulative annual savings | | | | | | | | | | | \$700 |

(a) Includes restructuring charges recorded in cost of sales of \$41.5 million in fiscal 2017, \$78.4 million in fiscal 2016 and \$59.6 million in fiscal 2015.

(b) Cumulative annual savings estimated by fiscal 2018. Includes savings from SG&A cost reduction projects.

Please refer to Note 4 to the Consolidated Financial Statements on page 55 of this report for more information regarding our restructuring activities.

Interest, net for fiscal 2017 totaled \$295 million, \$9 million lower than fiscal 2016, primarily driven by lower rates and changes in the mix of debt, partially offset by higher average debt balances.

Our consolidated **effective tax rate** for fiscal 2017 was 28.8 percent compared to 31.4 percent in fiscal 2016. The 2.6 percentage point decrease was primarily due to non-deductible expenses related to the Green Giant divestiture in fiscal 2016. Our effective tax rate excluding certain items affecting comparability was 29.2 percent in fiscal 2017 compared to 29.8 percent in fiscal 2016 (see the “Non-GAAP Measures” section below for a description of our use of measures not defined by GAAP).

After-tax earnings from joint ventures for fiscal 2017 decreased to \$85 million compared to \$88 million in fiscal 2016 primarily driven by unfavorable foreign currency exchange and an asset write-off for Cereal Partners Worldwide (CPW), partially offset by contributions from volume growth and favorable foreign currency exchange for Häagen-Dazs Japan, Inc. (HDJ). On a constant-currency basis, after-tax earnings from joint ventures decreased 6 percent (see the “Non-GAAP Measures” section below for a description of our use of this measure not defined by GAAP). The components of our joint ventures’ net sales growth are shown in the following table:

| Fiscal 2017 vs. Fiscal 2016 | CPW | HDJ |
|---|---------|--------|
| Contributions from volume growth ^(a) | 3 pts | 6 pts |
| Net price realization and mix | Flat | 2 pts |
| Foreign currency exchange | (5) pts | 10 pts |
| Net sales growth | (2) pts | 18 pts |

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

The change in net sales for each joint venture on a constant-currency basis is set forth in the following table:

| | Fiscal 2017 vs. Fiscal 2016 | | |
|----------------|--|-------------------------------------|---|
| | Percentage Change in Joint Venture Net Sales as Reported | Impact of Foreign Currency Exchange | Percentage Change in Joint Venture Net Sales on Constant-Currency Basis |
| CPW | (2)% | (5) pts | 3% |
| HDJ | 18% | 10 pts | 8% |
| Joint Ventures | 2% | (2) pt | 4% |

Average diluted shares outstanding decreased by 14 million in fiscal 2017 from fiscal 2016 due to share repurchases, partially offset by option exercises.

FISCAL 2016 CONSOLIDATED RESULTS OF OPERATIONS

Fiscal 2016 had 52 weeks compared to 53 weeks in fiscal 2015. Fiscal 2016 includes an additional month of results from Annie's and Yoplait SAS (please refer to Note 1 to the Consolidated Financial Statements on page 51 of this report).

Fiscal 2016 net sales declined 6 percent to \$16,563 million and were flat to fiscal 2015 on an organic basis. Operating profit of \$2,707 million was 30 percent higher than fiscal 2015. Total segment operating profit was \$3,000 million, 1 percent lower than fiscal 2015 and 1 percent higher on a constant-currency basis. In fiscal 2016, net earnings attributable to General Mills were \$1,697 million, up 39 percent from \$1,221 million in fiscal 2015, and we reported diluted EPS of \$2.77 in fiscal 2016, up 41 percent from \$1.97 in fiscal 2015. Adjusted diluted EPS which excludes certain items affecting comparability totaled \$2.92 in fiscal 2016, up 2 percent from \$2.86 in fiscal 2015. Diluted EPS excluding certain items affecting comparability on a constant-currency basis increased 5 percent compared to fiscal 2015 (see the "Non-GAAP Measures" section below for a description of our use of measures not defined by GAAP).

A summary of our consolidated financial results for fiscal 2016 follows:

| Fiscal 2016 | In millions, except per share | Fiscal 2016 vs. Fiscal 2015 | Percent of Net Sales | Constant-Currency Growth ^(a) |
|--|-------------------------------|-----------------------------|----------------------|---|
| Net sales | \$ 16,563.1 | (6)% | | |
| Operating profit | 2,707.4 | 30% | 16.3% | |
| Net earnings attributable to General Mills | 1,697.4 | 39% | | |
| Diluted earnings per share | \$ 2.77 | 41% | | |
| Organic net sales growth rate ^(a) | | Flat | | |
| Total segment operating profit ^(a) | 2,999.5 | (1)% | | 1% |
| Adjusted operating profit margin ^(a) | | | 16.8% | |
| Diluted earnings per share, excluding certain items affecting comparability ^(a) | \$ 2.92 | 2% | | 5% |

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

Consolidated **net sales** were as follows:

| | Fiscal 2016 | Fiscal 2016 vs. Fiscal 2015 | Fiscal 2015 |
|---|-------------|-----------------------------|-------------|
| Net sales (in millions) | \$ 16,563.1 | (6)% | \$ 17,630.3 |
| Contributions from volume growth ^(a) | | (3) pts | |
| Net price realization and mix | | 1 pt | |
| Foreign currency exchange | | (4) pt | |

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

The 6 percent decline in fiscal 2016 net sales included a 1 percent decrease from acquisitions and divestitures, primarily the Green Giant divestiture in fiscal 2016 and Annie's acquisition in fiscal 2015, reflecting 2 percentage points of decline from volume (please refer to Note 3 to the Consolidated Financial Statements on page 55 of this report). The 53rd week in fiscal 2015 contributed approximately 1 percentage point of net sales decline in fiscal 2016, reflecting approximately 1 percentage point of decline from volume.

Organic net sales were flat to fiscal 2015. To improve comparability of results from period to period, organic net sales exclude the impacts of foreign currency exchange rate fluctuations, as well as acquisitions, divestitures, and a 53rd week of results, when applicable.

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

| | Fiscal 2016 vs. Fiscal 2015 |
|---|--------------------------------|
| Contributions from organic volume growth ^(a) | Flat |
| Organic net price realization and mix | Flat |
| Organic net sales growth | Flat |
| Foreign currency exchange | (4)pts |
| Acquisitions and divestitures ^(b) | (1) pt |
| 53rd week impact ^(c) | (1) pt |
| Net sales growth | (6)pts |

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

(b) Primarily the Green Giant divestiture in fiscal 2016 and Annie's acquisition in fiscal 2015.

(c) Fiscal 2016 had 52 weeks compared to 53 weeks in fiscal 2015.

Cost of sales decreased \$948 million in fiscal 2016 to \$10,734 million. In fiscal 2016, product mix drove a \$486 million decrease in cost of sales and lower volume drove a \$369 million decrease. We recorded a \$63 million net decrease in cost of sales related to mark-to-market valuation of certain commodity positions and grain inventories as described in Note 7 to the Consolidated Financial Statements on page 61 of this report, compared to a net increase of \$90 million in fiscal 2015. In fiscal 2016, we recorded \$78 million of restructuring charges in cost of sales compared to \$60 million in fiscal 2015. We recorded \$58 million of restructuring initiative project-related costs in cost of sales in fiscal 2016 compared to \$13 million in fiscal 2015 (please refer to Note 4 to the Consolidated Financial Statements on page 55 of this report). We also recorded a \$3 million foreign exchange loss in cost of sales in fiscal 2015 related to Venezuela currency devaluation.

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

SG&A expenses decreased \$209 million in fiscal 2016 versus fiscal 2015 primarily due to an 8 percent decrease in advertising and media expense, and savings from Project Catalyst, Project Compass, and our other cost-management initiatives. In fiscal 2015, we recorded a \$5 million charge in SG&A expenses related to Venezuela currency devaluation and \$16 million of integration costs related to our acquisition of Annie's. SG&A expenses as a percent of net sales decreased 10 basis points compared to fiscal 2015.

During fiscal 2016, we recorded a \$148 million divestitures gain (net) from the sale of Green Giant, our

subsidiary in Venezuela, and our foodservice business in Argentina (please refer to Note 3 of the Consolidated Financial Statements on page 55 of this report).

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

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

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

| In Millions | As Reported | | | |
|---|--------------|--------------|--------------|-------------|
| | Fiscal 2016 | | Fiscal 2015 | |
| | Charge | Cash | Charge | Cash |
| Project Compass | \$ 54.7 | \$ 36.1 | \$ — | \$ — |
| Total Century ^(a) | 182.6 | 34.1 | 181.8 | 12.0 |
| Project Catalyst | (7.5) | 47.8 | 148.4 | 45.0 |
| Combination of certain operational facilities | — | 4.5 | 13.9 | 6.5 |
| Other | — | 0.1 | (0.6) | 0.1 |
| Total restructuring charges ^(a) | 229.8 | 122.6 | 343.5 | 63.6 |
| Project-related costs recorded in costs of sales | 57.5 | 54.5 | 13.2 | 9.7 |
| Restructuring charges and project-related costs | \$287.3 | \$177.1 | \$356.7 | \$73.3 |

(a) Includes \$78.4 million of restructuring charges recorded in cost of sales in fiscal 2016 and \$59.6 million in fiscal 2015.

Please refer to Note 4 to the Consolidated Financial Statements on page 55 of this report for more information regarding our restructuring activities.

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

Our consolidated **effective tax rate** for fiscal 2016 was 31.4 percent compared to 33.3 percent in fiscal 2015. The 1.9 percentage point decrease was primarily due to the unfavorable impact of our repatriation of historical foreign earnings in fiscal 2015, partially offset by non-deductible expenses related to the Green Giant divestiture in fiscal 2016. Our effective tax rate excluding certain

items affecting comparability was 29.8 percent in fiscal 2016 compared to 30.5 percent in fiscal 2015 (see the “Non-GAAP Measures” section below for a description of our use of measures not defined by GAAP).

After-tax earnings from joint ventures for fiscal 2016 increased to \$88 million compared to \$84 million in fiscal 2015 primarily driven by favorable input costs in fiscal 2016, favorable product mix for HDJ, and lapping an impairment charge of \$3 million at CPW in South Africa in fiscal 2015, partially offset by unfavorable foreign currency exchange. On a constant-currency basis, after-tax earnings from joint ventures increased 12 percent (see the “Non-GAAP Measures” section below for a description of our use of these measures not defined by GAAP). The components of our joint ventures’ net sales growth are shown in the following table:

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

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

The change in net sales for each joint venture on a constant-currency basis is set forth in the following table:

| | Fiscal 2016 vs. Fiscal 2015 | | |
|-----------------------|---|--|--|
| | Percentage Change in Joint Venture Net Sales as Reported | Impact of Foreign Currency Exchange | Percentage Change in Joint Venture Net Sales on Constant-Currency Basis |
| CPW | (12)% | (12) pts | Flat |
| HDJ | Flat | (5) pts | 5% |
| Joint Ventures | (10)% | (11) pts | 1% |

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

RESULTS OF SEGMENT OPERATIONS

In the third quarter of fiscal 2017, we announced a new global organization structure to streamline our leadership, enhance global scale, and drive improved operational agility to maximize our growth capabilities. As a result of this global reorganization, beginning in the third quarter of fiscal 2017, we reported results for our four operating segments as follows: North America Retail; Convenience Stores & Foodservice; Europe & Australia; and Asia & Latin America. We have restated our net sales by segment and segment operating profit amounts to reflect our new operating segments. These segment changes had no effect on previously reported

consolidated net sales, operating profit, net earnings attributable to General Mills, or earnings per share.

Our North America Retail operating segment consists of our former U.S. Retail operating units and our Canada region. Within our North America Retail operating segment, our former U.S. Meals operating unit and U.S. Baking operating unit have been combined into one operating unit: U.S. Meals & Baking. Our Convenience Stores & Foodservice operating segment was unchanged. Our Europe & Australia operating segment consists of our former Europe region. Our Asia & Latin America operating segment consists of our former Asia/Pacific and Latin America regions.

The following tables provide the dollar amount and percentage of net sales and operating profit from each segment for fiscal 2017, 2016, and 2015:

| In Millions | Fiscal Year | | | | | |
|----------------------------------|-------------|------------------|------------|------------------|------------|------------------|
| | 2017 | | 2016 | | 2015 | |
| | Dollars | Percent of Total | Dollars | Percent of Total | Dollars | Percent of Total |
| Net Sales | | | | | | |
| North America Retail | \$10,196.9 | 65% | \$10,936.6 | 66% | \$11,612.1 | 66% |
| Convenience Stores & Foodservice | 1,870.0 | 12 | 1,923.8 | 12 | 1,995.1 | 11 |
| Europe & Australia | 1,824.5 | 12 | 1,998.0 | 12 | 2,126.5 | 12 |
| Asia & Latin America | 1,728.4 | 11 | 1,704.7 | 10 | 1,896.6 | 11 |
| Total | \$15,619.8 | 100% | \$16,563.1 | 100% | \$17,630.3 | 100% |
| Segment Operating Profit | | | | | | |
| North America Retail | \$2,303.6 | 78% | \$2,351.2 | 78% | \$2,382.7 | 78% |
| Convenience Stores & Foodservice | 401.2 | 14 | 378.9 | 13 | 353.1 | 12 |
| Europe & Australia | 164.2 | 5 | 200.3 | 7 | 179.4 | 6 |
| Asia & Latin America | 83.6 | 3 | 69.1 | 2 | 119.8 | 4 |
| Total | \$2,952.6 | 100% | \$2,999.5 | 100% | \$3,035.0 | 100% |

Segment operating profit excludes unallocated corporate items, net gain/loss on divestitures, and restructuring, impairment, and other exit costs because these items affecting operating profit are centrally managed at the corporate level and are excluded from the measure of segment profitability reviewed by our executive management.

North America Retail Segment 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.

North America Retail net sales were as follows:

| | Fiscal 2017 | Fiscal 2017 vs. 2016 Percentage Change | Fiscal 2016 | Fiscal 2016 vs. 2015 Percentage Change | Fiscal 2015 |
|---|----------------|--|----------------|--|----------------|
| Net sales (in millions) | \$10,196.9 | (7)% | \$10,936.6 | (6)% | \$11,612.1 |
| Contributions from volume growth ^(a) | | (11) pts | | (7) pts | |
| Net price realization and mix | | 4 pts | | 2 pts | |
| Foreign currency exchange | | Flat | | (1) pt | |

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

The 7 percent decrease in North America Retail net sales for fiscal 2017 was driven by declines in the U.S. Meals & Baking, U.S. Yogurt, U.S. Cereal, and Canada operating units. The decline in net sales also includes the impact of the Green Giant divestiture from the U.S. Meals & Baking and Canada operating units in fiscal 2016.

The 6 percent decrease in North America Retail net sales for fiscal 2016 was driven by declines in all operating units. These results include 3 percentage points of net sales decline from the net impact of acquisitions and divestitures, primarily Green Giant and Annie's, reflecting approximately 3 percentage points of decline from volume. The 53rd week in fiscal 2015 contributed 1 percentage point of net sales decline in fiscal 2016, reflecting approximately 2 percentage points of decline from volume.

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

| | Fiscal 2017 vs. 2016 Percentage Change | Fiscal 2016 vs. 2015 Percentage Change |
|--|---|---|
| Contributions from organic | | |
| volume growth ^(a) | (9) pts | (2) pts |
| Organic net price realization and mix | 4 pts | 1 pt |
| Organic net sales growth | (5) pts | (1) pt |
| Foreign currency exchange | Flat | (1) pt |
| Acquisitions and divestitures ^(b) | (2) pts | (3) pts |
| 53rd week impact ^(c) | — | (1) pt |
| Net sales growth | (7) pts | (6) pt |

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

(b) Primarily the Green Giant divestiture in fiscal 2016 and Annie's acquisition in fiscal 2015.

(c) Fiscal 2016 had 52 weeks compared to 53 weeks in fiscal 2015.

North America Retail organic net sales decreased 5 percentage points in fiscal 2017 which reflects the impact of reduced marketing and higher pricing as a result of lower promotional spending. North America Retail organic net sales decreased 1 percent in fiscal

2016 which reflects the impact of reduced marketing support.

Net sales for our North America Retail operating units are shown in the following table:

| In Millions | Fiscal Year | | |
|------------------------------------|-------------|------------|------------|
| | 2017 | 2016 | 2015 |
| U.S. Meals & Baking ^(a) | \$3,876.6 | \$4,297.3 | \$4,644.1 |
| U.S. Cereal | 2,251.8 | 2,312.8 | 2,330.1 |
| U.S. Snacks ^(a) | 2,098.2 | 2,094.3 | 2,134.4 |
| U.S. Yogurt and Other | 1,064.3 | 1,302.7 | 1,398.4 |
| Canada | 906.0 | 929.5 | 1,105.1 |
| Total ^(a) | \$10,196.9 | \$10,936.6 | \$11,612.1 |

(a) The impact of an additional month of results from Annie's in fiscal 2016 was not material to U.S. Meals & Baking, U.S. Snacks, or the North America Retail segment.

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

| | Fiscal 2017 vs. 2016 | Fiscal 2016 vs. 2015 |
|------------------------------------|-------------------------|-------------------------|
| U.S. Meals & Baking ^(a) | (10)% | (7)% |
| U.S. Yogurt | (18) | (7) |
| U.S. Cereal | (3) | (1) |
| Canada ^(b) | (2) | (16) |
| U.S. Snacks ^(a) | Flat | (2) |
| Total ^(a) | (7)% | (6)% |

(a) Fiscal 2016 net sales for the U.S. Meals & Baking and U.S. Snacks operating units include an additional month of results from Annie's.

(b) On a constant currency basis, Canada net sales decreased 2 percent in fiscal 2017 and decreased 4 percent in fiscal 2016. See the "Non-GAAP Measures" section below for our use of this measure not defined by GAAP.

Segment operating profit of \$2,304 million in fiscal 2017 decreased \$48 million, or 2 percent, from fiscal 2016. The decrease was primarily driven by declining contributions from volume growth, currency-driven inflation on products imported into Canada, and the impact of the Green Giant divestiture, partially offset by benefits from cost savings initiatives, favorable net price

realization, and a decrease in SG&A expenses, including a 16 percentage point decline in media and advertising expense. Segment operating profit decreased 2 percent on a constant-currency basis in fiscal 2017 compared to fiscal 2016 (see the “Non-GAAP Measures” section below for our use of this measure).

Segment operating profit of \$2,351 million in fiscal 2016 decreased \$32 million, or 1 percent, from fiscal 2015. The decrease was primarily driven by currency-driven inflation on products imported into Canada and the impact of the Green Giant divestiture, partially offset by a decrease in SG&A expenses, including a decline in media and advertising expense and benefits from cost savings initiatives. Segment operating profit was flat on a constant-currency basis in fiscal 2016

compared to fiscal 2015 (see the “Non-GAAP Measures” section below for our use of this measure).

Convenience Stores & Foodservice Segment In our Convenience Stores & Foodservice segment our major product categories 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.

Convenience Stores & Foodservice net sales were as follows:

| | Fiscal 2017 | Fiscal 2017 vs. 2016 Percentage Change | Fiscal 2016 | Fiscal 2016 vs. 2015 Percentage Change | Fiscal 2015 |
|---|----------------|--|----------------|--|----------------|
| Net sales (in millions) | \$1,870.0 | (3)% | \$1,923.8 | (4)% | \$1,995.1 |
| Contributions from volume growth ^(a) | | Flat | | (3) pts | |
| Net price realization and mix | | (3) pts | | (1) pt | |

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

The 3 percent decline in fiscal 2017 Convenience Stores & Foodservice net sales was driven primarily by market index pricing on bakery flour and volume declines in non-Focus 6 platforms, partially offset by an increase in the Focus 6 platforms.

The 4 percentage point decline in fiscal 2016 net sales was primarily driven by the impact of the 53rd week in fiscal 2015 which contributed approximately 2 percentage points of net sales decline in fiscal 2016, reflecting approximately 2 percentage points of decline from volume.

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

| | Fiscal 2017 vs. 2016 Percentage Change | Fiscal 2016 vs. 2015 Percentage Change |
|---|---|---|
| Contributions from organic volume growth ^(a) | Flat | (1) pt |
| Organic net price realization and mix | (3) pts | (1) pt |
| Organic net sales growth | (3) pts | (2) pts |
| 53rd week impact ^(b) | — | (2) pts |
| Net sales growth | (3) pts | (4) pts |

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

(b) Fiscal 2016 had 52 weeks compared to 53 weeks in fiscal 2015.

In fiscal 2017, segment operating profit was \$401 million, an increase of 6 percent from \$379 million in fiscal 2016 primarily driven by lower input costs and benefits from cost savings initiatives. In fiscal 2016, segment operating profit was up 7 percent from \$353 million in fiscal 2015 primarily driven by favorable product mix and cost savings from Project Catalyst and other cost management initiatives.

Europe & Australia Segment Our Europe & Australia operating segment consists of our former Europe region. The segment includes 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 company-owned retail shops. Revenues from franchise fees are reported in the region or country where the franchisee is located.

Europe & Australia net sales were as follows:

| | Fiscal 2017 | Fiscal 2017 vs. 2016 Percentage Change | Fiscal 2016 | Fiscal 2016 vs. 2015 Percentage Change | Fiscal 2015 |
|---|----------------|--|----------------|--|----------------|
| Net sales (in millions) ^(a) | \$1,824.5 | (9)% | \$1,998.0 | (6)% | \$2,126.5 |
| Contributions from volume growth ^(b) | | (7) pts | | 5 pts | |
| Net price realization and mix | | 3 pts | | (2) pts | |
| Foreign currency exchange | | (5) pts | | (9) pts | |

(a) The 9 percent decline in fiscal 2017 net sales for the Europe & Australia segment includes approximately 3 percentage points of decline due to an additional month of results from Yoplait SAS in fiscal 2016. The 6 percent decline in fiscal 2016 net sales for the Europe & Australia segment includes 3 percentage points of growth due to an additional month of results from Yoplait SAS in fiscal 2016.

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

The 9 percent decline in Europe & Australia fiscal 2017 net sales was driven by lower contributions from volume growth, including the impact of an additional month of results from Yoplait SAS in fiscal 2016, and unfavorable foreign currency exchange, partially offset by favorable net price realization and mix.

The 6 percent decline in Europe & Australia fiscal 2016 net sales was driven by unfavorable foreign currency exchange, unfavorable net price realization and mix, and the impact of the 53rd week in fiscal 2015, partially offset by higher contributions from volume growth, including the impact of an additional month of results from Yoplait SAS in fiscal 2016.

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

| | Fiscal 2017 vs. 2016 Percentage Change | Fiscal 2016 vs. 2015 Percentage Change |
|---------------------------------------|---|---|
| Contributions from organic | | |
| volume growth ^(a) | (7) pts | 6 pts |
| Organic net price realization and mix | 3 pts | (2) pts |
| Organic net sales growth | (4) pts | 4 pts |
| Foreign currency exchange | (5) pts | (9) pts |
| 53rd week impact ^(b) | — | (1) pt |
| Net sales growth | (9) pts | (6) pts |

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

(b) Fiscal 2016 had 52 weeks compared to 53 weeks in fiscal 2015.

The 4 percent decrease in Europe & Australia organic net sales growth in fiscal 2017 was primarily driven by a 7 percentage point decline from contributions from organic volume growth, which primarily reflects increased competition in key categories and the impact of an additional month of results from Yoplait SAS in fiscal 2016.

The 4 percent increase in Europe & Australia organic net sales growth in fiscal 2016 was primarily driven by

a 6 percentage point increase from contributions from organic volume growth, which primarily reflects the impact of an additional month of results from Yoplait SAS, and contributions from volume growth in our Häagen-Dazs and Old El Paso businesses.

Segment operating profit for fiscal 2017 decreased 18 percent to \$164 million from \$200 million in fiscal 2016, primarily driven by unfavorable foreign currency exchange, including currency-driven inflation on imported products in certain markets, and the impact of the additional month of results from Yoplait SAS in fiscal 2016, partially offset by a decrease in SG&A expenses, including a 24 percentage point decline in media and advertising expense. Europe & Australia segment operating profit decreased 9 percent on a constant-currency basis in fiscal 2017 compared to fiscal 2016 (see the “Non-GAAP Measures” section below for our use of this measure).

Segment operating profit for fiscal 2016 increased 12 percent to \$200 million from \$179 million in fiscal 2015, primarily driven by lower input costs, favorable mix, and an additional month of results from Yoplait SAS, partially offset by unfavorable foreign currency exchange. Europe & Australia segment operating profit increased 28 percent on a constant-currency basis in fiscal 2016 compared to fiscal 2015 (see the “Non-GAAP Measures” section below for our use of this measure).

Asia & Latin America Segment Our Asia & Latin America operating segment consists of our former Asia/Pacific and Latin America regions. The segment includes 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 company-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.

Asia & Latin America net sales were as follows:

| | Fiscal 2017 | Fiscal 2017 vs. 2016 Percentage Change | Fiscal 2016 | Fiscal 2016 vs. 2015 Percentage Change | Fiscal 2015 |
|---|----------------|--|----------------|--|----------------|
| Net sales (in millions) ^(a) | \$1,728.4 | 1% | \$1,704.7 | (10)% | \$1,896.6 |
| Contributions from volume growth ^(b) | | Flat | | 5 pts | |
| Net price realization and mix | | 1 pt | | 1 pt | |
| Foreign currency exchange | | Flat | | (16) pts | |

(a) The 1 percent increase in fiscal 2017 net sales for the Asia & Latin America segment includes approximately 3 percentage points of growth due to an additional month of results from Yoki in fiscal 2017.

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

Asia & Latin America net sales increased 1 percent in fiscal 2017 primarily driven by favorable net price realization in Latin America and China. Contributions from volume growth in fiscal 2017 were flat, including the impact of an additional month of results for Yoki in fiscal 2017.

Asia & Latin America net sales declined 10 percentage points in fiscal 2016 primarily driven by 16 percentage points of net sales decline from unfavorable foreign currency exchange and the impact of the 53rd week in fiscal 2015, partially offset by favorable contributions from volume growth and favorable net price realization and mix.

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

| | Fiscal 2017 vs. 2016 Percentage Change | Fiscal 2016 vs. 2015 Percentage Change |
|---|---|---|
| Contributions from organic volume growth ^(a) | (2) pts | 3 pts |
| Organic net price realization and mix | 5 pts | 4 pts |
| Organic net sales growth | 3 pts | 7 pts |
| Foreign currency exchange | Flat | (16) pts |
| Acquisitions and divestitures ^(b) | (2) pts | Flat |
| 53rd week impact ^(c) | — | (1) pt |
| Net sales growth | 1 pt | (10) pts |

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

(b) Primarily our Venezuela subsidiary divestiture, Argentina foodservice divestiture, and Laticinos Carolina Ltda acquisition in fiscal 2016.

(c) Fiscal 2016 had 52 weeks compared to 53 weeks in fiscal 2015.

The 3 percent increase in Asia & Latin America organic net sales in fiscal 2017 was primarily driven by a 5 percentage point increase from organic net price realization and mix resulting from pricing actions in the Latin America and China markets, partially offset by a 2 percentage point decline in contributions from organic volume which reflects the impact of macroeconomic challenges in Latin America and the restructuring of our snacks business in China. The 2 percentage point decline in contributions from organic volume included the impact of an additional month of results from Yoki in fiscal 2017.

The 7 percent increase in Asia & Latin America organic net sales growth in fiscal 2016 was primarily driven by a 4 percentage point increase from organic net price realization and mix primarily driven by pricing actions in the Latin America region and a 3 percentage point increase in contributions from organic volume which reflects increased contributions from the Asia region.

Segment operating profit for fiscal 2017 increased 21 percent to \$84 million from \$69 million in fiscal 2016, primarily driven by growth in the Häagen-Dazs business in China and the impact of an additional month of results from Yoki in fiscal 2017. Asia & Latin America segment operating profit increased 20 percent on a constant-currency basis in fiscal 2017 compared to fiscal 2016 (see the "Non-GAAP Measures" section below for our use of this measure).

Segment operating profit for fiscal 2016 declined 42 percent to \$69 million from \$120 million in fiscal 2015, primarily driven by increased SG&A expenses,

unfavorable foreign currency exchange, and input cost inflation, including currency-driven inflation on imported products in certain markets. Asia & Latin America segment operating profit declined 33 percent on a constant-currency basis in fiscal 2016 compared to fiscal 2015 (see the “Non-GAAP Measures” section below for our use of this measure).

Unallocated Corporate Items 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. This includes gains and losses from the mark-to-market valuation of certain commodity positions until passed back to our operating segments in accordance with our policy as discussed in Note 7 to the Consolidated Financial Statements on page 61 of this report.

For fiscal 2017, unallocated corporate expense totaled \$190 million compared to \$289 million last year. In fiscal 2017, we recorded a \$14 million net decrease in expense related to mark-to-market valuation of certain commodity positions and grain inventories compared to a \$63 million net decrease in expense in the prior year. In addition, we recorded \$42 million of restructuring charges, and \$44 million of restructuring initiative project-related costs in cost of sales in fiscal 2017, compared to \$78 million of restructuring charges and \$58 million of restructuring initiative project-related costs in cost of sales in fiscal 2016. The decrease in unallocated corporate expense also reflects lower incentive expense in fiscal 2017 compared to fiscal 2016.

For fiscal 2016, unallocated corporate expense totaled \$289 million compared to \$414 million in fiscal 2015. In fiscal 2016, we recorded a \$63 million net decrease in expense related to mark-to-market valuation of certain commodity positions and grain inventories compared to a \$90 million net increase in expense in the prior year. In addition, we recorded \$78 million of restructuring charges, and \$58 million of restructuring initiative project-related costs in cost of sales in fiscal 2016, compared to \$60 million of restructuring charges and \$13 million of restructuring initiative project-related costs in cost of sales in fiscal 2015. We recorded an \$8 million foreign exchange loss related to the remeasurement of assets

and liabilities of our Venezuelan subsidiary in fiscal 2015. We also recorded \$16 million of integration costs resulting from the acquisition of Annie’s in fiscal 2015. The decrease in unallocated corporate expense also reflects cost savings from Project Catalyst and other cost management initiatives.

IMPACT OF INFLATION

Our gross margin performance reflects the impact of 1 percent input cost inflation in fiscal 2017, 2 percent in fiscal 2016, and 2 percent in fiscal 2015, primarily on commodity inputs. We expect input cost inflation of 3 percent in fiscal 2018. We attempt to minimize the effects of inflation through HMM, planning, and operating practices. Our risk management practices are discussed on page 44 of this report.

LIQUIDITY

The primary source of our liquidity is cash flow from operations. Over the most recent three-year period, our operations have generated \$7.5 billion in cash. A substantial portion of this operating cash flow has been returned to shareholders through share repurchases and dividends. We also use cash from operations to fund our capital expenditures and acquisitions. We typically use a combination of cash, notes payable, and long-term debt to finance significant acquisitions and major capital expansions.

As of May 28, 2017, we had \$703 million of cash and cash equivalents held in foreign jurisdictions, which will be used to fund foreign operations and acquisitions. There is currently no need to repatriate these funds in order to meet domestic funding obligations or scheduled cash distributions. If we choose to repatriate historical earnings held in foreign jurisdictions, we intend to do so only in a tax-neutral manner.

Cash Flows from Operations

| In Millions | Fiscal Year | | |
|---|-------------|-----------|-----------|
| | 2017 | 2016 | 2015 |
| Net earnings, including earnings attributable to redeemable and noncontrolling interests | \$1,701.1 | \$1,736.8 | \$1,259.4 |
| Depreciation and amortization | 603.6 | 608.1 | 588.3 |
| After-tax earnings from joint ventures | (85.0) | (88.4) | (84.3) |
| Distributions of earnings from joint ventures | 75.6 | 75.1 | 72.6 |
| Stock-based compensation | 95.7 | 89.8 | 106.4 |
| Deferred income taxes | 183.9 | 120.6 | 25.3 |
| Tax benefit on exercised options | (64.1) | (94.1) | (74.6) |
| Pension and other postretirement benefit plan contributions | (45.4) | (47.8) | (49.5) |
| Pension and other postretirement benefit plan costs | 35.7 | 118.1 | 91.3 |
| Divestitures loss (gain) | 13.5 | (148.2) | — |
| Restructuring, impairment, and other exit costs | 117.0 | 107.2 | 531.1 |
| Changes in current assets and liabilities, excluding the effects of acquisitions and divestitures | (232.0) | 258.2 | 214.7 |
| Other, net | (86.3) | (105.6) | (137.9) |
| Net cash provided by operating activities | \$2,313.3 | \$2,629.8 | \$2,542.8 |

In fiscal 2017, cash provided by operations was \$2.3 billion compared to \$2.6 billion in fiscal 2016. The \$316 million decrease is primarily driven by a \$490 million change in current assets and liabilities. The \$490 million change in current assets and liabilities is primarily due to changes in other current liabilities driven by changes in income taxes payable, a decrease in incentive accruals and changes in trade and advertising accruals due to reduced spending. The change in current assets and liabilities was also impacted by the timing of accounts payable. Additionally, we recorded a \$14 million loss on a divestiture during fiscal 2017, compared to a \$148 million net gain on divestitures during fiscal 2016 and classified the related cash flows as investing activities.

We strive to grow core working capital at or below the rate of growth in our net sales. For fiscal 2017, core working capital increased 9 percent, primarily due to timing of accounts receivable and inventory build late in fiscal 2017, compared to a net sales decline of 6 percent. In fiscal 2016, core working capital decreased 41 percent, compared to a net sales decline of 6 percent, and in fiscal 2015, core working capital decreased 13 percent, compared to net sales decline of 2 percent.

In fiscal 2016, our operations generated \$2.6 billion of cash, compared to \$2.5 billion in fiscal 2015. The \$477 million increase in net earnings included a \$96 million change in deferred income taxes and a \$148 million net gain on divestitures and was also offset by a \$424 million decrease in non-cash restructuring charges. The \$43 million change in current assets and liabilities was primarily driven by the timing of accounts payable including the impact of longer terms offset by the timing of inventory build.

Cash Flows from Investing Activities

| In Millions | Fiscal Year | | |
|--|-------------|------------|--------------|
| | 2017 | 2016 | 2015 |
| Purchases of land, buildings, and equipment | \$ (684.4) | \$ (729.3) | \$ (712.4) |
| Acquisitions, net of cash acquired | — | (84.0) | (822.3) |
| Investments in affiliates, net | 3.3 | 63.9 | (102.4) |
| Proceeds from disposal of land, buildings, and equipment | 4.2 | 4.4 | 11.0 |
| Proceeds from divestitures | 17.5 | 828.5 | — |
| Exchangeable note | 13.0 | 21.1 | 27.9 |
| Other, net | (0.5) | (11.2) | (4.0) |
| Net cash provided (used) by investing activities | \$ (646.9) | \$ 93.4 | \$ (1,602.2) |

In fiscal 2017, we used \$647 million of cash through investing activities compared to generating \$93 million in fiscal 2016. We invested \$684 million in land, buildings, and equipment in fiscal 2017, \$45 million less than last year.

In fiscal 2016, we generated \$93 million of cash through investing activities compared to a use of \$1.6 billion in fiscal 2015. We invested \$729 million in land, buildings, and equipment in fiscal 2016, \$17 million more than fiscal 2015. In fiscal 2016, we received proceeds of \$828 million from the divestitures of certain businesses, primarily Green Giant. In fiscal 2015, we acquired Annie's for an aggregate purchase price of \$809 million, net of \$12 million of cash acquired.

We expect capital expenditures to be approximately \$650 million in fiscal 2018. These expenditures will fund initiatives that are expected to fuel international growth, support innovative products, and continue HMM initiatives throughout the supply chain.

Cash Flows from Financing Activities

| In Millions | Fiscal Year | | |
|----------------------------------|--------------------|--------------------|--------------------|
| | 2017 | 2016 | 2015 |
| Change in notes payable | \$ 962.4 | \$ (323.8) | \$ (509.8) |
| Issuance of long-term debt | 1,072.1 | 542.5 | 2,253.2 |
| Payment of long-term debt | (1,000.0) | (1,000.4) | (1,145.8) |
| Proceeds from common stock | | | |
| issued on exercised options | 112.6 | 171.9 | 163.7 |
| Tax benefit on exercised options | 64.1 | 94.1 | 74.6 |
| Purchases of common | | | |
| stock for treasury | (1,651.5) | (606.7) | (1,161.9) |
| Dividends paid | (1,135.1) | (1,071.7) | (1,017.7) |
| Distributions to noncontrolling | | | |
| and redeemable interest holders | (61.0) | (84.3) | (25.0) |
| Other, net | (9.1) | (7.2) | (16.1) |
| Net cash used by | | | |
| financing activities | <u>\$(1,645.5)</u> | <u>\$(2,285.6)</u> | <u>\$(1,384.8)</u> |

Net cash used by financing activities decreased by \$640 million in fiscal 2017. We had \$1.8 billion more net debt issuances in fiscal 2017 than the prior year. For more information on our debt issuances and payments, please refer to Note 8 to the Consolidated Financial Statements on page 69 of this report.

During fiscal 2017, we received \$113 million in proceeds from common stock issued on exercised options compared to \$172 million in fiscal 2016, a decrease of \$59 million. During fiscal 2015, we received \$164 million

in proceeds from common stock issued on exercised options.

During fiscal 2017, we repurchased 25 million shares of our common stock for \$1,652 million. During fiscal 2016, we repurchased 11 million shares of our common stock for \$607 million. During fiscal 2015, we repurchased 22 million shares of our common stock for \$1,162 million.

Dividends paid in fiscal 2017 totaled \$1,135 million, or \$1.92 per share, an 8 percent per share increase from fiscal 2016. Dividends paid in fiscal 2016 totaled \$1,072 million, or \$1.78 per share, a 7 percent per share increase from fiscal 2015 dividends of \$1.67 per share.

Selected Cash Flows from Joint Ventures

Selected cash flows from our joint ventures are set forth in the following table:

| Inflow (Outflow), in Millions | Fiscal Year | | |
|--------------------------------|-------------|--------|-----------|
| | 2017 | 2016 | 2015 |
| Investments in affiliates, net | \$3.3 | \$63.9 | \$(102.4) |
| Dividends received | 75.6 | 75.1 | 72.6 |

CAPITAL RESOURCES

Total capital consisted of the following:

| In Millions | May 28, 2017 | May 29, 2016 |
|-----------------------------------|-------------------|-------------------|
| Notes payable | \$ 1,234.1 | \$ 269.8 |
| Current portion of long-term debt | 604.7 | 1,103.4 |
| Long-term debt | 7,642.9 | 7,057.7 |
| Total debt | 9,481.7 | 8,430.9 |
| Redeemable interest | 910.9 | 845.6 |
| Noncontrolling interests | 357.6 | 376.9 |
| Stockholders' equity | 4,327.9 | 4,930.2 |
| Total capital | <u>\$15,078.1</u> | <u>\$14,583.6</u> |

The following table details the fee-paid committed and uncommitted credit lines we had available as of May 28, 2017:

| In Billions | Facility Amount | Borrowed Amount |
|---|-----------------|-----------------|
| Credit facility expiring: | | |
| May 2022 | \$2.7 | \$ — |
| June 2019 | 0.2 | 0.1 |
| Total committed credit facilities | 2.9 | 0.1 |
| Uncommitted credit facilities | 0.5 | 0.1 |
| Total committed and uncommitted credit facilities | \$3.4 | \$0.2 |

In fiscal 2016, we entered into a \$2.7 billion fee-paid committed credit facility that was originally scheduled to expire in May 2021. During the fourth quarter of fiscal 2017 we amended the credit facility's expiration date by one year to May 2022.

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 uncommitted and asset-backed credit lines that support our foreign operations. The credit facilities contain several covenants, including a requirement to maintain a fixed charge coverage ratio of at least 2.5 times.

Certain of our long-term debt agreements, our credit facilities, and our noncontrolling interests contain restrictive covenants. As of May 28, 2017, we were in compliance with all of these covenants.

We have \$605 million of long-term debt maturing in the next 12 months that is classified as current, including \$500 million of 1.4 percent notes due October 2017 and \$100 million of 6.39 percent fixed rate medium term notes due for remarketing in February 2018. 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.

As of May 28, 2017, our total debt, including the impact of derivative instruments designated as hedges, was 67 percent in fixed-rate and 33 percent in floating-rate instruments, compared to 78 percent in fixed-rate and 22 percent in floating-rate instruments on May 29, 2016.

Return on average total capital was 12.7 percent in fiscal 2017 compared to 12.9 percent in fiscal 2016.

Improvement in adjusted return on average total capital is one of our key performance measures (see the "Non-GAAP Measures" section below for our discussion of this measure, which is not defined by GAAP). Adjusted return on average total capital increased 30 basis points from 11.3 percent in fiscal 2016 to 11.6 percent in fiscal 2017 as fiscal 2017 adjusted earnings increased. On a constant-currency basis, adjusted return on average total capital increased 40 basis points.

We also believe that our fixed charge coverage ratio and the ratio of operating cash flow to debt are important measures of our financial strength. Our fixed charge coverage ratio in fiscal 2017 was 7.26 compared to 7.40 in fiscal 2016. The measure decreased from fiscal 2016 as earnings before income taxes and after-tax earnings from joint ventures decreased by \$132 million in fiscal 2017. Our operating cash flow to debt ratio decreased 6.8 percentage points to 24.4 percent in fiscal 2017, driven by a decrease in cash provided by operations and an increase in notes payable.

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. We record Sodiaal's 50 percent interest in Yoplait Marques SNC and Liberté Marques Sàrl as noncontrolling interests, and 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 May 28, 2017, the redemption value of the redeemable interest was \$911 million which approximates its fair value.

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, 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. 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.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

As of May 28, 2017, we have issued guarantees and comfort letters of \$505 million for the debt and other obligations of consolidated subsidiaries, and guarantees and comfort letters of \$165 million for the debt and other obligations of non-consolidated affiliates, mainly CPW. In addition, off-balance sheet arrangements are generally limited to the future payments under non-cancelable operating leases, which totaled \$501 million as of May 28, 2017.

As of May 28, 2017, we had invested in five variable interest entities (VIEs). None of our VIEs are material to our results of operations, financial condition, or liquidity as of and for the fiscal year ended May 28, 2017.

Our defined benefit plans in the United States are subject to the requirements of the Pension Protection Act (PPA). In the future, the PPA may require us to make additional contributions to our domestic plans. We do not expect to be required to make any contributions in fiscal 2017.

The following table summarizes our future estimated cash payments under existing contractual obligations, including payments due by period:

| In Millions | Payments Due by Fiscal Year | | | | |
|--|-----------------------------|-----------|-----------|-----------|---------------------|
| | Total | 2018 | 2019 -20 | 2021-22 | 2023 and Thereafter |
| Long-term debt ^(a) | \$ 8,290.6 | 604.2 | 2,647.7 | 1,559.3 | 3,479.4 |
| Accrued interest | 83.8 | 83.8 | — | — | — |
| Operating leases ^(b) | 500.7 | 118.8 | 182.4 | 110.4 | 89.1 |
| Capital leases | 1.2 | 0.4 | 0.6 | 0.1 | 0.1 |
| Purchase obligations ^(c) | 3,191.0 | 2,304.8 | 606.8 | 264.3 | 15.1 |
| Total contractual obligations | 12,067.3 | 3,112.0 | 3,437.5 | 1,934.1 | 3,583.7 |
| Other long-term obligations ^(d) | 1,372.7 | — | — | — | — |
| Total long-term obligations | \$13,440.0 | \$3,112.0 | \$3,437.5 | \$1,934.1 | \$3,583.7 |

(a) Amounts represent the expected cash payments of our long-term debt and do not include \$1.2 million for capital leases or \$44.4 million for net unamortized debt issuance costs, premiums and discounts, and fair value adjustments.

(b) Operating leases represents the minimum rental commitments under non-cancelable operating leases.

(c) The majority of the purchase obligations represent commitments for raw material and packaging to be utilized in the normal course of business and for consumer marketing spending commitments that support our brands. For purposes of this table, arrangements are considered purchase obligations if a contract specifies all significant terms, including fixed or minimum quantities to be purchased, a pricing structure, and approximate timing of the transaction. Most arrangements are cancelable without a significant penalty and with short notice (usually 30 days). Any amounts reflected on the Consolidated Balance Sheets as accounts payable and accrued liabilities are excluded from the table above.

(d) The fair value of our foreign exchange, equity, commodity, and grain derivative contracts with a payable position to the counterparty was \$24 million as of May 28, 2017, based on fair market values as of that date. Future changes in market values will impact the amount of cash ultimately paid or received to settle those instruments in the future. Other long-term obligations mainly consist of liabilities for accrued compensation and benefits, including the underfunded status of certain of our defined benefit pension, other postretirement benefit, and postemployment benefit plans, and miscellaneous liabilities. We expect to pay \$21 million of benefits from our unfunded postemployment benefit plans and \$14.6 million of deferred compensation in fiscal 2018. We are unable to reliably estimate the amount of these payments beyond fiscal 2018. As of May 28, 2017, our total liability for uncertain tax positions and accrued interest and penalties was \$158.6 million.

SIGNIFICANT ACCOUNTING ESTIMATES

For a complete description of our significant accounting policies, see Note 2 to the Consolidated Financial Statements on page 51 of this report. Our significant accounting estimates are those that have a 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 post-employment benefit plans.

Promotional Expenditures Our promotional activities are conducted through our customers and directly or indirectly with end consumers. These activities include: payments to customers to perform merchandising activities on our behalf, such as advertising or in-store displays; discounts to our list prices to lower retail shelf prices; payments to gain distribution of new products; coupons, contests, and other incentives; and media and advertising expenditures. The recognition of these costs requires estimation of customer participation and performance levels. These estimates are based

on the forecasted customer sales, the timing and forecasted costs of promotional activities, and other factors. Differences between estimated expenses and actual costs are recognized as a change in management estimate in a subsequent period. Our accrued trade, coupon, and consumer marketing liabilities were \$483 million as of May 28, 2017, and \$564 million as of May 29, 2016. Because our total promotional expenditures (including amounts classified as a reduction of revenues) are significant, if our estimates are inaccurate we would have to make adjustments in subsequent periods that could have a significant effect on our results of operations.

Valuation of Long-Lived Assets We estimate the useful lives of long-lived assets and make estimates concerning undiscounted cash flows to review for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable. Fair value is measured using discounted cash flows or independent appraisals, as appropriate.

Intangible Assets Goodwill and other indefinite-lived intangible assets are not subject to amortization and are tested for impairment annually and whenever events or changes in circumstances indicate that impairment may have occurred. Our estimates of fair value for goodwill impairment testing are determined based on a discounted cash flow model. We use inputs from our long-range planning process to determine growth rates for sales and profits. We also make estimates of discount rates, perpetuity growth assumptions, market comparables, and other factors.

We evaluate the useful lives of our other intangible assets, mainly brands, to determine if they are finite or indefinite-lived. Reaching a determination on useful life requires significant judgments and assumptions regarding the future effects of obsolescence, demand, competition, other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels), the level of required maintenance expenditures, and the expected lives of other related groups of assets. Intangible assets that are deemed to have definite lives are amortized on a straight-line basis, over their useful lives, generally ranging from 4 to 30 years. Our estimate of the fair value of our brand assets is based on a discounted cash flow model using inputs

which include projected revenues from our long-range plan, assumed royalty rates that could be payable if we did not own the brands, and a discount rate.

As of May 28, 2017, we had \$12.9 billion of goodwill and indefinite-lived intangible assets. While we currently believe that the fair value of each intangible exceeds its carrying value and that those intangibles so classified will contribute indefinitely to our cash flows, materially different assumptions regarding future performance of our businesses or a different weighted-average cost of capital could result in material impairment losses and amortization expense. We performed our fiscal 2017 assessment of our intangible assets as of August 29, 2016. As of our annual assessment date, there was no impairment of any of our intangible assets as their related fair values were substantially in excess of the carrying values except for the Latin America reporting unit and the Immaculate Baking brand intangible asset. The excess fair value above the carrying value of the Latin America reporting unit and the *Immaculate Baking* brand intangible asset is as follows:

| In Millions | Carrying Value | Excess Fair Value Above Carrying Value |
|--------------------------|----------------|--|
| Latin America | \$523.0 | 15% |
| <i>Immaculate Baking</i> | \$ 12.0 | 17% |

Our Latin America reporting unit and *Immaculate Baking* brand have experienced declining business performance. In addition, while not impaired as of May 28, 2017, the *Progresso*, *Green Giant*, and *Food Should Taste Good* brand intangible assets and U.S. Yogurt reporting unit had risk of decreasing coverage. We will continue to monitor these businesses for potential impairment.

Redeemable Interest In fiscal 2017, we adjusted the redemption value of Sodiaal's redeemable interest in Yoplait SAS based on a discounted cash flow model. The significant assumptions used to estimate the redemption value include projected revenue growth and profitability from our long-range plan, capital spending, depreciation and taxes, foreign currency exchange rates, and a discount rate. As of May 28, 2017, the redemption value of the redeemable interest was \$911 million.

Stock-based Compensation The valuation of stock options is a significant accounting estimate that requires us to use judgments and assumptions that

are likely to have a material impact on our financial statements. Annually, we make predictive assumptions regarding future stock price volatility, employee exercise behavior, dividend yield, and the forfeiture rate. For more information on these assumptions, please refer to Note 11 to the Consolidated Financial Statements on page 73 of this report.

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

| | Fiscal Year | | |
|--|-------------|-----------|-----------|
| | 2017 | 2016 | 2015 |
| Estimated fair values of stock options granted | \$8.80 | \$7.24 | \$7.22 |
| Assumptions: | | | |
| Risk-free interest rate | 1.7% | 2.4% | 2.6% |
| Expected term | 8.5 years | 8.5 years | 8.5 years |
| Expected volatility | 17.8% | 17.6% | 17.5% |
| Dividend yield | 2.9% | 3.2% | 3.1% |

The risk-free interest rate for periods during the expected term of the options is based on the U.S. Treasury zero-coupon yield curve in effect at the time of grant. An increase in the expected term by 1 year, leaving all other assumptions constant, would increase the grant date fair value by 1 percent. If all other assumptions are held constant, a one percentage point increase in our fiscal 2017 volatility assumption would increase the grant date fair value of our fiscal 2017 option awards by 7 percent.

To the extent that actual outcomes differ from our assumptions, we are not required to true up grant-date fair value-based expense to final intrinsic values. However, these differences can impact the classification of cash tax benefits realized upon exercise of stock options, as explained in the following two paragraphs. Furthermore, historical data has a significant bearing on our forward-looking assumptions. Significant variances between actual and predicted experience could lead to prospective revisions in our assumptions, which could then significantly impact the year-over-year comparability of stock-based compensation expense.

Any corporate income tax benefit realized upon exercise or vesting of an award in excess of that previously recognized in earnings (referred to as a windfall tax benefit) is presented in the Consolidated Statements of Cash Flows as a financing cash flow. The actual impact on future years' cash flows will depend, in part, on the

volume of employee stock option exercises during a particular year and the relationship between the exercise-date market value of the underlying stock and the original grant-date fair value previously determined for financial reporting purposes.

Realized windfall tax benefits are credited to additional paid-in capital within the Consolidated Balance Sheets. Realized shortfall tax benefits (amounts which are less than that previously recognized in earnings) are first offset against the cumulative balance of windfall tax benefits, if any, and then charged directly to income tax expense, potentially resulting in volatility in our consolidated effective income tax rate. Because employee stock option exercise behavior is not within our control, it is possible that significantly different reported results could occur if different assumptions or conditions were to prevail.

See the new accounting requirements for the accounting and presentation of stock-based payments in the Recently Issued Accounting Pronouncements section below for forthcoming changes to stock-based compensation.

Income Taxes We apply a more-likely-than-not threshold to the recognition and derecognition of uncertain tax positions. Accordingly, we recognize the amount of tax benefit that has a greater than 50 percent likelihood of being ultimately realized upon settlement. Future changes in judgment related to the expected ultimate resolution of uncertain tax positions will affect earnings in the quarter of such change. For more information on income taxes, please refer to Note 14 to the Consolidated Financial Statements on page 82 of this report.

Defined Benefit Pension, Other Postretirement Benefit, and Postemployment Benefit Plans We have defined benefit pension plans covering many employees in the United States, Canada, France, and the United Kingdom. We also sponsor plans that provide health care benefits to many of our retirees in the United States, Canada, and Brazil. Under certain circumstances, we also provide accruable benefits, primarily severance, to former and inactive employees in the United States, Canada, and Mexico. Please refer to Note 13 to the Consolidated Financial Statements on page 76 of this report for a description of our defined benefit pension, other postretirement benefit, and postemployment benefit plans.

We recognize benefits provided during retirement or following employment over the plan participants' active

working lives. Accordingly, we make various assumptions to predict and measure costs and obligations many years prior to the settlement of our obligations. Assumptions that require significant management judgment and have a material impact on the measurement of our net periodic benefit expense or income and accumulated benefit obligations include the long-term rates of return on plan assets, the interest rates used to discount the obligations for our benefit plans, and health care cost trend rates.

Expected Rate of Return on Plan Assets Our expected rate of return on plan assets is determined by our asset allocation, our historical long-term investment performance, our estimate of future long-term returns by asset class (using input from our actuaries, investment services, and investment managers), and long-term inflation assumptions. We review this assumption annually for each plan; however, our annual investment performance for one particular year does not, by itself, significantly influence our evaluation.

Our historical investment returns (compound annual growth rates) for our United States defined benefit pension and other postretirement benefit plan assets were 11.8 percent, 10.0 percent, 6.0 percent, 8.4 percent, and 8.4 percent for the 1, 5, 10, 15, and 20 year periods ended May 31, 2017.

On a weighted-average basis, the expected rate of return for all defined benefit plans was 8.17 percent for fiscal 2017, 8.53 percent for fiscal 2016, and 8.53 percent for fiscal 2015. For fiscal 2018, we lowered our weighted-average expected rate of return on plan assets for our principal defined benefit pension and other postretirement plans in the United States to 7.95 percent due to asset changes that decreased investment risk in the portfolio.

Lowering the expected long-term rate of return on assets by 100 basis points would increase our net pension and postretirement expense by \$66 million for fiscal 2018. A market-related valuation basis is used to reduce year-to-year expense volatility. The market-related valuation recognizes certain investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the market-related value of assets. Our outside actuaries perform these calculations as part of our determination of annual expense or income.

Discount Rates Beginning in fiscal 2017, we changed the method used to estimate the service and interest cost components of the net periodic benefit expense for our United States and most of our international defined benefit pension, other postretirement benefit, and postemployment benefit plans. We adopted a full yield curve approach to estimate service cost and interest cost by applying the specific spot rates along the yield curve used to determine the benefit obligation to the relevant projected cash flows. This method provides a more precise measurement of service and interest costs by correlating the timing of the plans' liability cash flows to the corresponding rate on the yield curve. Previously, we estimated service cost and interest cost using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. This change does not affect the measurement of our benefit obligations related to these plans. We have accounted for this change prospectively as a change in accounting estimate beginning in the first quarter of fiscal 2017. The change in methodology resulted in a decrease in service and interest cost of approximately \$68 million in fiscal 2017 compared to what our costs would have been under the previous method. The fiscal 2017 reduction in our net periodic benefit expense as a result of this change in methodology was partially offset by a reduction in our weighted-average expected rate of return on plan assets for our principal defined benefit pension and other postretirement plans in the United States to 8.25 percent as a result of changes that decreased investment risk in the portfolio.

Our discount rate assumptions are determined annually as of May 31 for our defined benefit pension, other postretirement benefit, and postemployment benefit plan obligations. We work with our outside actuaries to determine the timing and amount of expected future cash outflows to plan participants and, using the Aa Above Median corporate bond yield, to develop a forward interest rate curve, including a margin to that index based on our credit risk. This forward interest rate curve is applied to our expected future cash outflows to determine our discount rate assumptions.

Our weighted-average discount rates were as follows:

| | Defined Benefit Pension Plans | Other Postretirement Benefit Plans | Postemployment Benefit Plans |
|--|--|---|------------------------------------|
| Effective rate for fiscal 2018 service costs | 4.37% | 4.27% | 3.54% |
| Effective rate for fiscal 2018 interest costs | 3.45% | 3.24% | 2.67% |
| Obligations as of May 31, 2017 | 4.08% | 3.92% | 2.87% |
| Effective rate for fiscal 2017 service costs | 4.57% | 4.42% | 3.55% |
| Effective rate for fiscal 2017 interest costs | 3.44% | 3.17% | 2.67% |
| Obligations as of May 29, 2016 | 4.19% | 3.97% | 2.94% |
| Obligations as of May 31, 2015 and fiscal 2016 expense | 4.38% | 4.20% | 3.55% |

Lowering the discount rates by 100 basis points would increase our net defined benefit pension, other postretirement benefit, and postemployment benefit plan expense for fiscal 2018 by approximately \$85 million. All obligation-related experience gains and losses are amortized using a straight-line method over the average remaining service period of active plan participants.

Health Care Cost Trend Rates We review our health care cost trend rates annually. Our review is based on data we collect about our health care claims experience and information provided by our actuaries. This information includes recent plan experience, plan design, overall industry experience and projections, and assumptions used by other similar organizations. Our initial health care cost trend rate is adjusted as necessary to remain consistent with this review, recent experiences, and short-term expectations. Our initial health care cost trend rate assumption is 7.3 percent for retirees age 65 and over and 7.0 percent for retirees under age 65 at the end of fiscal 2017. Rates are graded down annually until the ultimate trend rate of 5.0 percent is reached in 2024 for all retirees. The trend rates are applicable for calculations only if the retirees' benefits increase as a result of health care inflation. The ultimate trend rate is adjusted annually, as necessary, to approximate the current economic view on the rate of long-term inflation plus an appropriate health care cost

premium. Assumed trend rates for health care costs have an important effect on the amounts reported for the other postretirement benefit plans.

A one percentage point change in the health care cost trend rate would have the following effects:

| In Millions | One Percentage Point Increase | One Percentage Point Decrease |
|---|--|--|
| Effect on the aggregate of the service and interest cost components in fiscal 2018 | \$ 2.2 | \$ (1.9) |
| Effect on the other post retirement accumulated benefit obligation as of May 28, 2017 | 59.5 | (53.8) |

Any arising health care claims cost-related experience gain or loss is recognized in the calculation of expected future claims. Once recognized, experience gains and losses are amortized using a straight-line method over 10 years, resulting in at least the minimum amortization required being recorded.

Financial Statement Impact In fiscal 2017, we recorded net defined benefit pension, other postretirement benefit, and postemployment benefit plan expense of \$56 million compared to \$163 million of expense in fiscal 2016 and \$153 million of expense in fiscal 2015. As of May 28, 2017, we had cumulative unrecognized actuarial net losses of \$1.6 billion on our defined benefit pension plans and \$24 million on our postretirement and postemployment benefit plans, mainly as the result of liability increases from lower interest rates, partially offset by recent increases in the values of plan assets. These unrecognized actuarial net losses will result in increases in our future pension and postretirement benefit expenses because they currently exceed the corridors defined by GAAP.

Actual future net defined benefit pension, other postretirement benefit, and postemployment benefit plan income or expense will depend on investment performance, changes in future discount rates, changes in health care cost trend rates, and other factors related to the populations participating in these plans.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In March 2017, the Financial Accounting Standards Board (FASB) issued 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. 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. We recognized net periodic benefit expense of \$56 million in fiscal 2017, \$163 million in fiscal 2016, and \$153 million in fiscal 2015 of which \$141 million, \$161 million, and \$167 million, respectively, related to service cost. These amounts may not necessarily be indicative of future amounts that may be recognized subsequent to the adoption of this new standard. The requirements of the new standard are effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods, which for us is the first quarter of fiscal 2019. Early adoption is permitted.

In January 2017, the FASB issued new accounting requirements related to goodwill impairment testing. The new standard eliminates the requirement to measure a goodwill impairment loss by determining the implied fair value of goodwill. Instead, goodwill impairment losses will be measured by the amount by which a reporting unit's carrying value exceeds the reporting unit's fair value, limited to the amount of goodwill allocated to the reporting unit. The requirements of the new standard are effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, which for us is fiscal 2021. Early adoption is permitted. We intend to adopt this standard in fiscal 2018 and do not expect this guidance to have a material impact on our results of operations or financial position.

In October 2016, the FASB issued new accounting requirements related to the recognition of income taxes resulting from intra-entity transfers of assets other than inventory. This will result in the recognition of the income tax consequences resulting from

the intra-entity transfer of assets in our Consolidated Statements of Earnings in the period of the transfer. The requirements of the new standard are effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods, which for us is the first quarter of fiscal 2019. 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 March 2016, the FASB issued new accounting requirements for the accounting and presentation of stock-based payments. This will result in realized windfall and shortfall tax benefits upon exercise or vesting of stock-based awards being recorded in our Consolidated Statements of Earnings instead of additional paid-in capital within our Consolidated Balance Sheets. In addition, realized windfall and shortfall tax benefits will be reclassified from financing activities to operating activities in our Consolidated Statements of Cash Flows. We recognized windfall tax benefits of \$64 million in fiscal 2017, \$94 million in fiscal 2016, and \$75 million in fiscal 2015. These amounts may not necessarily be indicative of future amounts that may be recognized subsequent to the adoption of this new standard as windfall and shortfall tax benefits are dependent upon future stock prices, employee exercise behavior, and applicable tax rates. The requirements of the new standard are effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods, which for us is the first quarter of fiscal 2018.

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 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. We are in the process of evaluating lease accounting software and analyzing the impact of this standard on our results of operations and financial position. 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 quantify the impact at this time.

In May 2014, the FASB issued new accounting requirements for the recognition of revenue from contracts with customers. The requirements of the new standard and its subsequent amendments are effective

for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods, which for us is the first quarter of fiscal 2019. We are in the process of documenting the impact of the guidance on our current accounting policies and practices in order to identify material differences, if any, that would result from applying the new requirements to our revenue contracts. We continue to make progress on our revenue recognition review and are also in the process of evaluating the impact, if any, on changes to our business processes, systems, and controls to support recognition and disclosure requirements under the new guidance. In addition, we continue to assess our adoption approach. Based on our assessment to date, we do not expect this guidance to have a material impact on our results of operations or financial position.

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 our management or Board of Directors uses the

non-GAAP measure. These non-GAAP measures should be viewed in addition to, and not in lieu of, the comparable GAAP measure.

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 Results of Segment Operations discussions above.

Total Segment Operating Profit and Total Segment Operating Profit as a Percent of Net Sales Total segment operating profit is used in reporting to our executive management and as a component of the Board of Director's measurement of our performance for incentive compensation purposes. We believe that this measure provides useful information to investors because it is the profitability measure we use to evaluate segment performance.

| Percent of Net Sales | Fiscal Year | | | | | | | | | |
|--|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| | 2017 | | 2016 | | 2015 | | 2014 | | 2013 | |
| Operating profit as reported | \$2,566.4 | 16.4% | \$2,707.4 | 16.3% | \$2,077.3 | 11.8% | \$2,957.4 | 16.5% | \$2,851.8 | 16.0% |
| Unallocated corporate items | 190.1 | 1.2% | 288.9 | 1.8% | 413.8 | 2.3% | 258.4 | 1.5% | 351.3 | 2.0% |
| Divestitures loss (gain) | 13.5 | 0.1% | (148.2) | (0.9)% | — | —% | (65.5) | (0.4)% | — | —% |
| Restructuring, impairment, and other exit costs | 182.6 | 1.2% | 151.4 | 0.9% | 543.9 | 3.1% | 3.6 | —% | 19.8 | 0.1% |
| Total segment operating profit | \$2,952.6 | 18.9% | \$2,999.5 | 18.1% | \$3,035.0 | 17.2% | \$3,153.9 | 17.6% | \$3,222.9 | 18.1% |

Diluted EPS Excluding Certain Items Affecting Comparability and Related Constant-currency Growth Rate (Adjusted Diluted EPS) 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:

| Per Share Data | Fiscal Year | | | | | | |
|--|-------------|--------|-------------------------|--------|-------------------------|--------|--------|
| | 2017 | 2016 | 2017 vs. 2016 Change | 2015 | 2016 vs. 2015 Change | 2014 | 2013 |
| Diluted earnings per share, as reported | \$2.77 | \$2.77 | Flat | \$1.97 | 41% | \$2.83 | \$2.79 |
| Mark-to-market effects ^(a) | (0.01) | (0.07) | | 0.09 | | (0.05) | — |
| Divestitures loss (gain), net ^(b) | 0.01 | (0.10) | | — | | (0.06) | — |
| Tax items ^(c) | — | — | | 0.13 | | — | (0.13) |
| Acquisition integration costs ^(d) | — | — | | 0.02 | | — | 0.01 |
| Venezuela currency devaluation ^(a) | — | — | | 0.01 | | 0.09 | 0.03 |
| Restructuring costs ^(e) | 0.26 | 0.26 | | 0.35 | | 0.01 | 0.02 |
| Project-related costs ^(e) | 0.05 | 0.06 | | 0.01 | | — | — |
| Indefinite-lived intangible asset impairment ^(f) | — | — | | 0.28 | | — | — |
| Diluted earnings per share, excluding certain items affecting comparability | \$3.08 | \$2.92 | 5% | \$2.86 | 2% | \$2.82 | \$2.72 |
| Foreign currency exchange impact | | | (1) | | (3) | | |
| Diluted earnings per share growth, excluding certain items affecting comparability, on a constant-currency basis | | | 6% | | 5% | | |

(a) See Note 7 to the Consolidated Financial Statements on page 61 of this report.

(b) See Note 3 to the Consolidated Financial Statements on page 55 of this report.

(c) The fiscal 2015 tax item is related to the one-time repatriation of historical foreign earnings in fiscal 2015. The fiscal 2013 tax items consist of a reduction to income taxes related to the restructuring of our GMC subsidiary and an increase to income taxes related to the liquidation of a corporate investment. Additionally, fiscal 2013 includes changes in deferred taxes associated with the Medicare Part D subsidies related to the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010.

(d) Integration costs resulting from the acquisitions of Annie's in fiscal 2015 and Yoki in fiscal 2013.

(e) See Note 4 to the Consolidated Financial Statements on page 55 of this report.

(f) See Note 6 to the Consolidated Financial Statements on page 59 of this report.

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.

Adjusted Return on Average Total Capital Change in adjusted return on average total capital is a measure used in reporting to our executive management and as a component of the Board of Director's measurement of our performance for incentive compensation purposes. We believe that this measure provides useful information to investors because it is important for assessing the utilization of capital and it eliminates certain items that affect year-to-year comparability. The calculation of adjusted return on average total capital and return on average total capital, its GAAP equivalent follows:

| In Millions | Fiscal Year | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
| Net earnings, including earnings attributable to redeemable and noncontrolling interests | \$ 1,701.1 | \$ 1,736.8 | \$ 1,259.4 | \$ 1,861.3 | \$ 1,892.5 | |
| Interest, net, after-tax | 187.9 | 193.1 | 199.8 | 190.9 | 201.2 | |
| Earnings before interest, after-tax | 1,889.0 | 1,929.9 | 1,459.2 | 2,052.2 | 2,093.7 | |
| Adjustments, after-tax: ^(a) | | | | | | |
| Mark-to-market effects | (8.8) | (39.6) | 56.5 | (30.5) | (2.8) | |
| Divestitures loss (gain), net | 9.2 | (66.0) | — | (36.0) | — | |
| Tax items | — | — | 78.6 | — | (85.4) | |
| Acquisition integration costs | — | — | 10.4 | — | 8.8 | |
| Venezuela currency devaluation | — | — | 8.0 | 57.8 | 20.8 | |
| Restructuring costs | 153.9 | 160.8 | 217.7 | 3.6 | 15.9 | |
| Project-related costs | 28.2 | 36.8 | 8.3 | — | — | |
| Indefinite-lived intangible asset impairment | — | — | 176.9 | — | — | |
| Adjusted earnings before interest, after-tax for adjusted return on capital calculation | \$ 2,071.5 | \$ 2,021.9 | \$ 2,015.6 | \$ 2,047.1 | \$ 2,051.0 | |
| Current portion of long-term debt | \$ 604.7 | \$ 1,103.4 | \$ 1,000.4 | \$ 1,250.6 | \$ 1,443.3 | \$ 741.2 |
| Notes payable | 1,234.1 | 269.8 | 615.8 | 1,111.7 | 599.7 | 526.5 |
| Long-term debt | 7,642.9 | 7,057.7 | 7,575.3 | 6,396.6 | 5,901.8 | 6,139.5 |
| Total debt | 9,481.7 | 8,430.9 | 9,191.5 | 8,758.9 | 7,944.8 | 7,407.2 |
| Redeemable interest | 910.9 | 845.6 | 778.9 | 984.1 | 967.5 | 847.8 |
| Noncontrolling interests | 357.6 | 376.9 | 396.0 | 470.6 | 456.3 | 461.0 |
| Stockholders' equity | 4,327.9 | 4,930.2 | 4,996.7 | 6,534.8 | 6,672.2 | 6,421.7 |
| Total capital | 15,078.1 | 14,583.6 | 15,363.1 | 16,748.4 | 16,040.8 | 15,137.7 |
| Accumulated other comprehensive loss | 2,244.5 | 2,612.2 | 2,310.7 | 1,340.3 | 1,585.3 | 1,743.7 |
| After-tax earnings adjustments ^(b) | 621.6 | 439.1 | 347.1 | (209.3) | (204.2) | (161.5) |
| Adjusted total capital | \$ 17,944.2 | \$ 17,634.9 | \$ 18,020.9 | \$ 17,879.4 | \$ 17,421.9 | \$ 16,719.9 |
| Average total capital ^(c) | \$ 14,830.9 | \$ 14,973.4 | \$ 16,055.8 | \$ 16,394.6 | \$ 15,589.2 | |
| Return on average total capital ^(c) | 12.7% | 12.9% | 9.1% | 12.5% | 13.4% | |
| Adjusted average total capital ^(c) | \$ 17,789.6 | \$ 17,827.9 | \$ 17,950.1 | \$ 17,650.6 | \$ 17,070.8 | |
| Adjusted return on average total capital ^(c) | 11.6% | 11.3% | 11.2% | 11.6% | 12.0% | |
| Change in adjusted return on average total capital | 30 bps | | | | | |
| Foreign currency exchange impact | (10) bps | | | | | |
| Change in adjusted return on average total capital on a constant-currency basis | 40 bps | | | | | |

(a) 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.

(b) Sum of current year and previous year after-tax adjustments.

(c) See "Glossary" on page 89 of this report for definition.

Free Cash Flow Conversion Rate and Total Cash Returned to Shareholders as a Percentage of Free Cash Flow

We believe these measures provide useful information to investors because they are important for assessing our efficiency in converting earnings to cash and returning cash to shareholders. The calculation of free cash flow conversion rate and net cash provided by operating activities conversion rate, its equivalent GAAP measure follows:

| In Millions | Fiscal Year | | | | | | |
|---|-------------|------------|------------|------------|------------|------------|------------|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
| Net earnings, including earnings attributable to redeemable and noncontrolling interests, as reported | \$ 1,701.1 | \$ 1,736.8 | \$ 1,259.4 | \$ 1,861.3 | \$ 1,892.5 | \$ 1,589.1 | \$ 1,803.5 |
| Mark-to-market, net of tax ^(a) | \$ (8.8) | \$ (39.6) | \$ 56.5 | \$ (30.5) | \$ (2.8) | \$ 65.6 | \$ (60.0) |
| Divestitures loss (gain), net of tax ^(b) | 9.2 | (66.0) | — | (36.0) | — | — | — |
| Tax related Items ^(c) | — | — | 78.6 | — | (85.4) | — | (88.9) |
| Acquisition integration costs, net of tax ^(b) | — | — | 10.4 | — | 8.8 | 9.7 | — |
| Venezuela currency devaluation, net of tax ^(a) | — | — | 8.0 | 57.8 | 20.8 | — | — |
| Restructuring costs, net of tax ^(d) | 153.9 | 160.8 | 217.7 | 3.6 | 15.9 | 64.3 | 2.8 |
| Project-related costs, net of tax ^(d) | 28.2 | 36.8 | 8.3 | — | — | — | — |
| Intangible asset impairment, net of tax ^(e) | — | — | 176.9 | — | — | — | — |
| Adjusted net earnings, including earnings attributable to redeemable and noncontrolling interests | \$ 1,883.6 | \$ 1,828.8 | \$ 1,815.8 | \$ 1,856.2 | \$ 1,849.8 | \$ 1,728.7 | \$ 1,657.4 |
| Net cash provided by operating activities, as reported | 2,313.3 | 2,629.8 | 2,542.8 | 2,541.0 | 2,926.0 | 2,407.2 | 1,531.1 |
| Purchases of land, buildings, and equipment | (684.4) | (729.3) | (712.4) | (663.5) | (613.9) | (675.9) | (648.8) |
| Free cash flow | \$ 1,628.9 | \$ 1,900.5 | \$ 1,830.4 | \$ 1,877.5 | \$ 2,312.1 | \$ 1,731.3 | \$ 882.3 |
| Net cash provided by operating activities conversion rate | 136% | 151% | 202% | 137% | 155% | 151% | 85% |
| Free cash flow conversion rate | 86% | 104% | 101% | 101% | 125% | 100% | 53% |

| Rolling 3 Years, in Millions | Fiscal Year | | | | |
|---|-------------|------------|------------|------------|------------|
| | 2015-2017 | 2014-2016 | 2013-2015 | 2012-2014 | 2011-2013 |
| Adjusted earnings, including earnings attributable to redeemable and noncontrolling interests | \$ 5,528.2 | \$ 5,500.8 | \$ 5,521.8 | \$ 5,434.7 | \$ 5,235.9 |
| Free cash flow, rolling 3 years | \$ 5,359.8 | \$ 5,608.4 | \$ 6,020.0 | \$ 5,920.9 | \$ 4,925.7 |
| Free cash flow conversion rate, rolling 3 years | 97% | 102% | 109% | 109% | 94% |

The calculation of total cash returned to shareholders as a percentage of free cash flow follows:

| In Millions | Fiscal Year | | |
|--|-------------|------------|------------|
| | 2017 | 2016 | 2015 |
| Dividends paid | \$ 1,135.1 | \$ 1,071.7 | \$ 1,017.7 |
| Purchases of common stock for treasury | 1,651.5 | 606.7 | 1,161.9 |
| Proceeds from common stock issued on exercised options | (112.6) | (171.9) | (163.7) |
| Total cash returned to shareholders | \$ 2,674.0 | \$ 1,506.5 | \$ 2,015.9 |
| Total cash returned to shareholders as a percentage of free cash flow | 164% | 79% | 110% |
| Total cash returned to shareholders as percentage of free cash flow - cumulative 2015-2017 | 116% | | |

(a) See Note 7 of the Consolidated Financial Statements on page 61 of this report.

(b) See Note 3 of the Consolidated Financial Statements on page 55 of this report.

(c) The fiscal 2015 tax item is related to the one-time repatriation of historical foreign earnings in fiscal 2015. The fiscal 2013 tax items consist of a reduction to income taxes related to the restructuring of our GMC subsidiary and an increase to income taxes related to the liquidation of a corporate investment. Additionally, fiscal 2013 includes changes in deferred taxes associated with the Medicare Part D subsidies related to the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010.

(d) See Note 4 of the Consolidated Financial Statements on page 55 of this report.

(e) See Note 6 to the Consolidated Financial Statements on page 59 of this report.

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.

Total Segment Operating Profit Constant-currency 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.

Total segment operating profit growth rates on a constant-currency basis are calculated as follows:

| | Fiscal | |
|--|--------|---------|
| | 2017 | 2016 |
| Percentage change in total segment operating profit as reported | (2)% | (1)% |
| Impact of foreign currency exchange | (1) pt | (2) pts |
| Percentage change in total segment operating profit on a constant-currency basis | (1)% | 1% |

See our reconciliation of total segment operating profit to operating profit, its GAAP-equivalent, above.

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 are calculated as follows:

| | Fiscal | |
|--|--------|---------|
| | 2017 | 2016 |
| Percentage change in after-tax earnings from joint ventures as reported | (4)% | 5% |
| Impact of foreign currency exchange | 2 pts | (7) pts |
| Percentage change in after-tax earnings from joint ventures on a constant-currency basis | (6)% | 12% |

Net Sales Growth Rates for Canada Operating Unit on a Constant-currency Basis We believe 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:

| | Fiscal | |
|---|--------|----------|
| | 2017 | 2016 |
| Percentage change in net sales as reported | (2)% | (16)% |
| Impact of foreign currency exchange | Flat | (12) pts |
| Percentage change in net sales on a constant-currency basis | (2)% | (4)% |

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:

| | Fiscal 2017 | | |
|----------------------|---|-------------------------------------|--|
| | Percentage Change in Operating Profit as Reported | Impact of Foreign Currency Exchange | Percentage Change in Operating Profit on Constant-Currency Basis |
| North America Retail | (2)% | Flat | (2)% |
| Europe & Australia | (18) | (9) pts | (9) |
| Asia & Latin America | 21 | 1 pt | 20 |

| | Fiscal 2016 | | |
|----------------------|---|-------------------------------------|--|
| | 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)% | (1) pt | Flat |
| Europe & Australia | 12 | (16) pts | 28% |
| Asia & Latin America | (42) | (9) pts | (33) |

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 year-to-year 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:

| In Millions | Fiscal Year Ended | | | | | | | | | | | | | |
|---|---------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|
| | May 28, 2017 | | May 29, 2016 | | May 31, 2015 | | May 25, 2014 | | May 26, 2013 | | May 27, 2012 | | May 29, 2011 | |
| | Pretax Earnings (a) | Income Taxes | Pretax Earnings (a) | Income Taxes | Pretax Earnings (a) | Income Taxes | Pretax Earnings (a) | Income Taxes | Pretax Earnings (a) | Income Taxes | Pretax Earnings (a) | Income Taxes | Pretax Earnings (a) | Income Taxes |
| As reported | \$2,271.3 | \$655.2 | \$2,403.6 | \$755.2 | \$1,761.9 | \$586.8 | \$2,655.0 | \$883.3 | \$2,534.9 | \$741.2 | \$2,210.5 | \$709.6 | \$2,428.2 | \$721.1 |
| Mark-to-market effects ^(b) | (13.9) | (5.1) | (62.8) | (23.2) | 89.7 | 33.2 | (48.5) | (18.0) | (4.4) | (1.6) | 104.2 | 38.6 | (95.2) | (35.2) |
| Divestitures loss (gain) ^(c) | 13.5 | 4.3 | (148.2) | (82.2) | — | — | (65.5) | (29.5) | — | — | — | — | — | — |
| Tax items ^(d) | — | — | — | — | — | (78.6) | — | — | — | 85.4 | — | — | — | 88.9 |
| Acquisition integration costs ^(e) | — | — | — | — | 16.0 | 5.6 | — | — | 12.3 | 3.5 | 11.2 | 1.5 | — | — |
| Venezuela currency devaluation ^(b) | — | — | — | — | 8.0 | — | 62.2 | 4.4 | 25.2 | 4.4 | — | — | — | — |
| Restructuring costs ^(f) | 224.1 | 70.2 | 229.8 | 69.0 | 343.5 | 125.8 | 3.6 | — | 18.6 | 2.7 | 100.6 | 36.3 | 4.4 | 1.6 |
| Project-related costs ^(f) | 43.9 | 15.7 | 57.5 | 20.7 | 13.2 | 4.9 | — | — | — | — | — | — | — | — |
| Intangible asset impairment ^(g) | — | — | — | — | 260.0 | 83.1 | — | — | — | — | — | — | — | — |
| As adjusted | \$2,538.9 | \$740.3 | \$2,479.9 | \$739.5 | \$2,492.3 | \$760.8 | \$2,606.8 | \$840.2 | \$2,586.6 | \$835.6 | \$2,426.5 | \$786.0 | \$2,337.4 | \$776.4 |
| Effective tax rate: | | | | | | | | | | | | | | |
| As reported | | 28.8% | | 31.4% | | 33.3% | | 33.3% | | 29.2% | | 32.1% | | 29.7% |
| As adjusted | | 29.2% | | 29.8% | | 30.5% | | 32.2% | | 32.3% | | 32.4% | | 33.2% |
| Sum of adjustments to income taxes | | \$85.1 | | \$(15.7) | | \$174.0 | | \$(43.1) | | \$94.4 | | \$76.4 | | \$55.3 |
| Average number of common shares - diluted EPS | | 598.0 | | 611.9 | | 618.8 | | 645.7 | | 665.6 | | 666.7 | | 664.8 |
| Impact of income tax adjustments on diluted EPS excluding certain items affecting comparability | | \$(0.14) | | \$0.03 | | \$(0.28) | | \$0.07 | | \$(0.14) | | \$(0.11) | | \$(0.08) |

(a) Earnings before income taxes and after-tax earnings from joint ventures.

(b) See Note 7 to the Consolidated Financial Statements on page 61 of this report.

(c) See Note 3 to the Consolidated Financial Statements on page 55 of this report.

(d) The fiscal 2015 tax item is related to the one-time repatriation of historical foreign earnings in fiscal 2015. The fiscal 2013 tax items consist of a reduction to income taxes related to the restructuring of our GMC subsidiary and an increase to income taxes related to the liquidation of a corporate investment. Additionally, fiscal 2013 includes changes in deferred taxes associated with the Medicare Part D subsidies related to the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010.

(e) Integration costs resulting from the acquisitions of Annie's in fiscal 2015 and Yoki in fiscal 2013.

(f) See Note 4 to the Consolidated Financial Statements on page 55 of this report.

(g) See Note 6 to the Consolidated Financial Statements on page 59 of this report.

Adjusted Operating Profit as a Percent of Net Sales 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. Adjusted operating profit excludes certain items affecting comparability.

| Percent of Net Sales | Fiscal Year | | | | | | | | | |
|---|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| | 2017 | | 2016 | | 2015 | | 2014 | | 2013 | |
| Operating profit as reported | \$2,566.4 | 16.4% | \$2,707.4 | 16.3% | \$2,077.3 | 11.8% | \$2,957.4 | 16.5% | \$2,851.8 | 16.0% |
| Mark-to-market effects ^(a) | (13.9) | (0.1)% | (62.8) | (0.4)% | 89.7 | 0.5% | (48.5) | (0.3)% | (4.4) | —% |
| Divestitures loss (gain), ^(b) | 13.5 | 0.1% | (148.2) | (0.9)% | — | —% | (65.5) | (0.4)% | — | —% |
| Acquisition integration costs ^(c) | — | —% | — | —% | 16.0 | 0.1% | — | —% | 12.3 | 0.1% |
| Venezuela currency devaluation ^(a) | — | —% | — | —% | 8.0 | —% | 62.2 | 0.4% | 25.2 | 0.1% |
| Restructuring costs ^(d) | 224.1 | 1.4% | 229.8 | 1.4% | 343.5 | 1.9% | 3.6 | —% | 18.6 | 0.1% |
| Project-related costs ^(d) | 43.9 | 0.3% | 57.5 | 0.4% | 13.2 | 0.1% | — | —% | — | —% |
| Intangible asset impairment ^(e) | — | —% | — | —% | 260.0 | 1.5% | — | —% | — | —% |
| Adjusted operating profit | \$2,834.0 | 18.1% | \$2,783.7 | 16.8% | \$2,807.7 | 15.9% | \$2,909.2 | 16.2% | \$2,903.5 | 16.3% |

(a) See Note 7 to the Consolidated Financial Statements on page 61 of this report.

(b) See Note 3 to the Consolidated Financial Statements on page 55 of this report.

(c) Integration costs resulting from the acquisitions of Annie's in fiscal 2015 and Yoki in fiscal 2013.

(d) See Note 4 to the Consolidated Financial Statements on page 55 of this report.

(e) See Note 6 to the Consolidated Financial Statements on page 59 of this report.

Adjusted Gross Margin We believe this measure provides useful information to investors because it is important for assessing our gross margin on a comparable basis. Adjusted gross margin excludes certain items affecting comparability.

| | Fiscal 2017 % of Net Sales | Fiscal 2016 % of Net Sales |
|---------------------------|-------------------------------|-------------------------------|
| Gross margin, as reported | 35.6% | 35.2% |
| Mark-to-market effects | (0.1) | (0.4) |
| Restructuring costs | 0.3 | 0.5 |
| Project-related costs | 0.3 | 0.3 |
| Adjusted gross margin | 36.1% | 35.6% |

Forward-Looking Financial Measures Our fiscal 2018 outlook for organic net sales growth, constant-currency total segment operating profit and adjusted diluted EPS, and adjusted operating profit margin are non-GAAP financial measures that exclude, or have otherwise been adjusted for, items impacting comparability, including the effect of foreign currency exchange rate fluctuations, restructuring charges and project-related costs, and commodity mark-to-market effects. Our fiscal 2018 outlook for organic net sales growth also

excludes the effect of acquisitions and divestitures. We are not able to reconcile these forward-looking non-GAAP financial measures to their most directly comparable forward-looking GAAP financial measures without unreasonable efforts because we are unable to predict with a reasonable degree of certainty the actual impact of changes in foreign currency exchange rates and commodity prices or the timing of acquisitions, divestitures and restructuring actions throughout fiscal 2018. The unavailable information could have a significant impact on our fiscal 2018 GAAP financial results.

For fiscal 2018, we currently expect: foreign currency exchange rates (based on blend of forward and forecasted rates and hedge positions), acquisitions, and divestitures to have an immaterial impact on net sales growth; foreign currency exchange rates to have an immaterial impact on total segment operating profit and adjusted diluted EPS growth; and total restructuring charges and project-related costs related to actions previously announced to total approximately \$45 million.

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 SEC and in our reports to shareholders.

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

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

Our future results could be affected by a variety of factors, such as: competitive dynamics in the consumer foods industry and the markets for our products, including new product introductions, advertising activities, pricing actions, and promotional activities of our competitors; economic conditions, including changes in inflation rates, interest rates, tax rates, or the availability of capital; product development and innovation; consumer acceptance of new products and product improvements; consumer reaction to pricing actions and changes in promotion levels; acquisitions or dispositions of businesses or assets; changes in capital structure; changes in the legal and regulatory environment, including 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 savings 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 our 2017 Form 10-K, 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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk stemming from changes in interest and foreign exchange rates and commodity and equity prices. Changes in these factors could cause fluctuations in our earnings and cash flows. In the normal course of business, we actively manage our exposure to these market risks by entering into various hedging transactions, authorized under established policies that place clear controls on these activities. The counterparties in these transactions are generally highly rated institutions. We establish credit limits for each counterparty. Our hedging transactions include but are not limited to a variety of derivative financial instruments. For information on interest rate, foreign exchange, commodity price, and equity instrument risk, please see Note 7 to the Consolidated Financial Statements on page 61 of this report.

VALUE AT RISK

The estimates in the table below are intended to measure the maximum potential fair value we could lose in one day from adverse changes in market interest rates, foreign exchange rates, commodity prices, and equity prices under normal market conditions. A Monte Carlo value-at-risk (VAR) methodology was used to quantify the market risk for our exposures. The models assumed normal market conditions and used a 95 percent confidence level.

The VAR calculation used historical interest and foreign exchange rates, and commodity and equity prices from the past year to estimate the potential volatility

and correlation of these rates in the future. The market data were drawn from the RiskMetrics™ data set. The calculations are not intended to represent actual losses in fair value that we expect to incur. Further, since the hedging instrument (the derivative) inversely correlates with the underlying exposure, we would expect that any loss or gain in the fair value of our derivatives would be generally offset by an increase or decrease in the fair value of the underlying exposure. The positions included in the calculations were: debt; investments; interest rate swaps; foreign exchange forwards; commodity swaps, futures and options; and equity instruments. The calculations do not include the underlying foreign exchange and commodities or equity-related positions that are offset by these market-risk-sensitive instruments.

The table below presents the estimated maximum potential VAR arising from a one-day loss in fair value for our interest rate, foreign currency, commodity, and equity market-risk-sensitive instruments outstanding as of May 28, 2017, and May 29, 2016, and the average fair value impact during the year ended May 28, 2017.

| In Millions | Fair Value Impact | | |
|------------------------------|-------------------|----------------------------|--------------|
| | May 28, 2017 | Average During Fiscal 2017 | May 29, 2016 |
| Interest rate instruments | \$25.1 | \$26.5 | \$33.3 |
| Foreign currency instruments | 24.6 | 22.9 | 27.6 |
| Commodity instruments | 3.2 | 2.5 | 3.3 |
| Equity instruments | 1.3 | 1.4 | 1.7 |

REPORTS OF MANAGEMENT AND INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM


REPORT OF MANAGEMENT RESPONSIBILITIES

The management of General Mills, Inc. is responsible for the fairness and accuracy of the consolidated financial statements. The statements have been prepared in accordance with accounting principles that are generally accepted in the United States, using management's best estimates and judgments where appropriate. The financial information throughout the Annual Report on Form 10-K is consistent with our consolidated financial statements.

Management has established a system of internal controls that provides reasonable assurance that assets are adequately safeguarded and transactions are recorded accurately in all material respects, in accordance with management's authorization. We maintain a strong audit program that independently evaluates the adequacy and effectiveness of internal controls. Our internal controls provide for appropriate separation of duties and responsibilities, and there are documented policies regarding use of our assets and proper financial reporting. These formally stated and regularly communicated policies demand highly ethical conduct from all employees.

The Audit Committee of the Board of Directors meets regularly with management, internal auditors, and our independent registered public accounting firm to review internal control, auditing, and financial reporting matters. The independent registered public accounting firm, internal auditors, and employees have full and free access to the Audit Committee at any time.

The Audit Committee reviewed and approved the Company's annual financial statements. The Audit Committee recommended, and the Board of Directors approved, that the consolidated financial statements be included in the Annual Report. The Audit Committee also appointed KPMG LLP to serve as the Company's independent registered public accounting firm for fiscal 2018.



J. L. Harmening
Chief Executive Officer



D. L. Mulligan
Executive Vice President
and Chief Financial
Officer

June 29, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
General Mills, Inc.:

We have audited the accompanying consolidated balance sheets of General Mills, Inc. and subsidiaries as of May 28, 2017 and May 29, 2016, and the related consolidated statements of earnings, comprehensive income, total equity and redeemable interest, and cash flows for each of the fiscal years in the three-year period ended May 28, 2017. In connection with our audits of the consolidated financial statements, we have audited the accompanying financial statement schedule. We also have audited General Mills, Inc.'s internal control over financial reporting as of May 28, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). General Mills, Inc.'s management is responsible for these consolidated financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Item 9a Management's Report on Internal Control over Financial Reporting in our 2017 Form 10-K. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal

control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of General Mills, Inc. and subsidiaries as of May 28, 2017 and May 29, 2016, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended May 28, 2017, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the accompanying financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also in our opinion, General Mills, Inc. maintained, in all material respects, effective internal control over financial reporting as of May 28, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

KPMG LLP

Minneapolis, Minnesota
June 29, 2017

CONSOLIDATED STATEMENTS OF EARNINGS

GENERAL MILLS, INC. AND SUBSIDIARIES

| In Millions, Except per Share Data | Fiscal Year | | |
|--|-------------|-------------|-------------|
| | 2017 | 2016 | 2015 |
| Net sales | \$ 15,619.8 | \$ 16,563.1 | \$ 17,630.3 |
| Cost of sales | 10,056.0 | 10,733.6 | 11,681.1 |
| Selling, general, and administrative expenses | 2,801.3 | 3,118.9 | 3,328.0 |
| Divestitures loss (gain) | 13.5 | (148.2) | — |
| Restructuring, impairment, and other exit costs | 182.6 | 151.4 | 543.9 |
| Operating profit | 2,566.4 | 2,707.4 | 2,077.3 |
| Interest, net | 295.1 | 303.8 | 315.4 |
| Earnings before income taxes and after-tax earnings from joint ventures | 2,271.3 | 2,403.6 | 1,761.9 |
| Income taxes | 655.2 | 755.2 | 586.8 |
| After-tax earnings from joint ventures | 85.0 | 88.4 | 84.3 |
| Net earnings, including earnings attributable to redeemable and noncontrolling interests | 1,701.1 | 1,736.8 | 1,259.4 |
| Net earnings attributable to redeemable and noncontrolling interests | 43.6 | 39.4 | 38.1 |
| Net earnings attributable to General Mills | \$ 1,657.5 | \$ 1,697.4 | \$ 1,221.3 |
| Earnings per share - basic | \$ 2.82 | \$ 2.83 | \$ 2.02 |
| Earnings per share - diluted | \$ 2.77 | \$ 2.77 | \$ 1.97 |
| Dividends per share | \$ 1.92 | \$ 1.78 | \$ 1.67 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

GENERAL MILLS, INC. AND SUBSIDIARIES

| In Millions | Fiscal Year | | |
|--|-------------|------------|------------|
| | 2017 | 2016 | 2015 |
| Net earnings, including earnings attributable to redeemable and noncontrolling interests | \$ 1,701.1 | \$ 1,736.8 | \$ 1,259.4 |
| Other comprehensive income (loss), net of tax: | | | |
| Foreign currency translation | 6.3 | (108.7) | (957.9) |
| Net actuarial income (loss) | 197.9 | (325.9) | (358.4) |
| Other fair value changes: | | | |
| Securities | 0.8 | 0.1 | 0.8 |
| Hedge derivatives | 53.3 | 16.0 | 4.1 |
| Reclassification to earnings: | | | |
| Hedge derivatives | (25.7) | (9.5) | 4.9 |
| Amortization of losses and prior service costs | 122.5 | 128.6 | 105.1 |
| Other comprehensive income (loss), net of tax | 355.1 | (299.4) | (1,201.4) |
| Total comprehensive income | 2,056.2 | 1,437.4 | 58.0 |
| Comprehensive income (loss) attributable to redeemable and noncontrolling interests | 31.0 | 41.5 | (192.9) |
| Comprehensive income attributable to General Mills | \$ 2,025.2 | \$ 1,395.9 | \$ 250.9 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

GENERAL MILLS, INC. AND SUBSIDIARIES

| In Millions, Except Par Value | May 28, 2017 | May 29, 2016 |
|--|--------------|--------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 766.1 | \$ 763.7 |
| Receivables | 1,430.1 | 1,360.8 |
| Inventories | 1,483.6 | 1,413.7 |
| Prepaid expenses and other current assets | 381.6 | 399.0 |
| Total current assets | 4,061.4 | 3,937.2 |
| Land, buildings, and equipment | 3,687.7 | 3,743.6 |
| Goodwill | 8,747.2 | 8,741.2 |
| Other intangible assets | 4,530.4 | 4,538.6 |
| Other assets | 785.9 | 751.7 |
| Total assets | \$ 21,812.6 | \$ 21,712.3 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,119.8 | \$ 2,046.5 |
| Current portion of long-term debt | 604.7 | 1,103.4 |
| Notes payable | 1,234.1 | 269.8 |
| Other current liabilities | 1,372.2 | 1,595.0 |
| Total current liabilities | 5,330.8 | 5,014.7 |
| Long-term debt | 7,642.9 | 7,057.7 |
| Deferred income taxes | 1,719.4 | 1,399.6 |
| Other liabilities | 1,523.1 | 2,087.6 |
| Total liabilities | 16,216.2 | 15,559.6 |
| Redeemable interest | 910.9 | 845.6 |
| Stockholders' equity: | | |
| Common stock, 754.6 shares issued, \$0.10 par value | 75.5 | 75.5 |
| Additional paid-in capital | 1,120.9 | 1,177.0 |
| Retained earnings | 13,138.9 | 12,616.5 |
| Common stock in treasury, at cost, shares of 177.7 and 157.8 | (7,762.9) | (6,326.6) |
| Accumulated other comprehensive loss | (2,244.5) | (2,612.2) |
| Total stockholders' equity | 4,327.9 | 4,930.2 |
| Noncontrolling interests | 357.6 | 376.9 |
| Total equity | 4,685.5 | 5,307.1 |
| Total liabilities and equity | \$ 21,812.6 | \$ 21,712.3 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF TOTAL EQUITY, AND REDEEMABLE INTEREST

GENERAL MILLS, INC. AND SUBSIDIARIES

| In Millions, Except per Share Data | \$.10 Par Value Common Stock (One Billion Shares Authorized) | | | | | | Retained Earnings | Accumulated Other Comprehensive Loss | Noncontrolling Interests | Total Equity | Redeemable Interest |
|---|--|------------|----------------------------|----------|-------------|------------|-------------------|--------------------------------------|--------------------------|--------------|---------------------|
| | Issued | | | Treasury | | | | | | | |
| | Shares | Par Amount | Additional Paid-In Capital | Shares | Amount | | | | | | |
| Balance as of May 25, 2014 | 754.6 | \$75.5 | \$1,231.8 | (142.3) | \$(5,219.4) | \$11,787.2 | \$(1,340.3) | \$470.6 | \$7,005.4 | \$984.1 | |
| Total comprehensive income (loss) | | | | | | 1,221.3 | (970.4) | (70.0) | 180.9 | (122.9) | |
| Cash dividends declared (\$1.67 per share) | | | | | | (1,017.7) | | | (1,017.7) | | |
| Shares purchased | | | | (22.3) | (1,161.9) | | | | (1,161.9) | | |
| Stock compensation plans (includes income tax benefits of \$74.6) | | | (38.1) | 8.7 | 325.7 | | | | 287.6 | | |
| Unearned compensation related to stock unit awards | | | (80.8) | | | | | | (80.8) | | |
| Earned compensation | | | 111.1 | | | | | | 111.1 | | |
| Decrease in redemption value of redeemable interest | | | 83.2 | | | | | | 83.2 | (83.2) | |
| Addition of noncontrolling interest | | | | | | | | 20.7 | 20.7 | | |
| Acquisition of interest in subsidiary | | | (10.5) | | | | | 0.6 | (9.9) | | |
| Distributions to redeemable and noncontrolling interest holders | | | | | | | | (25.9) | (25.9) | 0.9 | |
| Balance as of May 31, 2015 | 754.6 | 75.5 | 1,296.7 | (155.9) | (6,055.6) | 11,990.8 | (2,310.7) | 396.0 | 5,392.7 | 778.9 | |
| Total comprehensive income (loss) | | | | | | 1,697.4 | (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 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 redeemable and noncontrolling 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 | | | | | | 1,657.5 | 367.7 | 13.8 | 2,039.0 | 17.2 | |
| Cash dividends declared (\$1.92 per share) | | | | | | (1,135.1) | | | (1,135.1) | | |
| Shares purchased | | | | (25.4) | (1,651.5) | | | | (1,651.5) | | |
| Stock compensation plans (includes income tax benefits of \$64.1) | | | 3.6 | 5.5 | 215.2 | | | | 218.8 | | |
| Unearned compensation related to stock unit awards | | | (78.5) | | | | | | (78.5) | | |
| Earned compensation | | | 94.9 | | | | | | 94.9 | | |
| Increase in redemption value of redeemable interest | | | (75.9) | | | | | | (75.9) | 75.9 | |
| Acquisition of interest in subsidiary | | | (0.2) | | | | | 0.1 | (0.1) | | |
| Distributions to redeemable and noncontrolling interest holders | | | | | | | | (33.2) | (33.2) | (27.8) | |
| Balance as of May 28, 2017 | 754.6 | \$75.5 | \$1,120.9 | (177.7) | \$(7,762.9) | \$13,138.9 | \$(2,244.5) | \$357.6 | \$4,685.5 | \$910.9 | |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

GENERAL MILLS, INC. AND SUBSIDIARIES

| In Millions | Fiscal Year | | |
|--|-------------|------------|------------|
| | 2017 | 2016 | 2015 |
| Cash Flows - Operating Activities | | | |
| Net earnings, including earnings attributable to redeemable and noncontrolling interests | \$ 1,701.1 | \$ 1,736.8 | \$ 1,259.4 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation and amortization | 603.6 | 608.1 | 588.3 |
| After-tax earnings from joint ventures | (85.0) | (88.4) | (84.3) |
| Distributions of earnings from joint ventures | 75.6 | 75.1 | 72.6 |
| Stock-based compensation | 95.7 | 89.8 | 106.4 |
| Deferred income taxes | 183.9 | 120.6 | 25.3 |
| Tax benefit on exercised options | (64.1) | (94.1) | (74.6) |
| Pension and other postretirement benefit plan contributions | (45.4) | (47.8) | (49.5) |
| Pension and other postretirement benefit plan costs | 35.7 | 118.1 | 91.3 |
| Divestitures loss (gain) | 13.5 | (148.2) | — |
| Restructuring, impairment, and other exit costs | 117.0 | 107.2 | 531.1 |
| Changes in current assets and liabilities, excluding the effects of acquisitions and divestitures | (232.0) | 258.2 | 214.7 |
| Other, net | (86.3) | (105.6) | (137.9) |
| Net cash provided by operating activities | 2,313.3 | 2,629.8 | 2,542.8 |
| Cash Flows - Investing Activities | | | |
| Purchases of land, buildings, and equipment | (684.4) | (729.3) | (712.4) |
| Acquisitions, net of cash acquired | — | (84.0) | (822.3) |
| Investments in affiliates, net | 3.3 | 63.9 | (102.4) |
| Proceeds from disposal of land, buildings, and equipment | 4.2 | 4.4 | 11.0 |
| Proceeds from divestitures | 17.5 | 828.5 | — |
| Exchangeable note | 13.0 | 21.1 | 27.9 |
| Other, net | (0.5) | (11.2) | (4.0) |
| Net cash provided (used) by investing activities | (646.9) | 93.4 | (1,602.2) |
| Cash Flows - Financing Activities | | | |
| Change in notes payable | 962.4 | (323.8) | (509.8) |
| Issuance of long-term debt | 1,072.1 | 542.5 | 2,253.2 |
| Payment of long-term debt | (1,000.0) | (1,000.4) | (1,145.8) |
| Proceeds from common stock issued on exercised options | 112.6 | 171.9 | 163.7 |
| Tax benefit on exercised options | 64.1 | 94.1 | 74.6 |
| Purchases of common stock for treasury | (1,651.5) | (606.7) | (1,161.9) |
| Dividends paid | (1,135.1) | (1,071.7) | (1,017.7) |
| Distributions to noncontrolling and redeemable interest holders | (61.0) | (84.3) | (25.0) |
| Other, net | (9.1) | (7.2) | (16.1) |
| Net cash used by financing activities | (1,645.5) | (2,285.6) | (1,384.8) |
| Effect of exchange rate changes on cash and cash equivalents | (18.5) | (8.1) | (88.9) |
| Increase (decrease) in cash and cash equivalents | 2.4 | 429.5 | (533.1) |
| Cash and cash equivalents - beginning of year | 763.7 | 334.2 | 867.3 |
| Cash and cash equivalents - end of year | \$ 766.1 | \$ 763.7 | \$ 334.2 |
| Cash Flow from Changes in Current Assets and Liabilities, excluding the effects of acquisitions and divestitures: | | | |
| Receivables | \$ (69.2) | \$ (6.9) | \$ 6.8 |
| Inventories | (61.5) | (146.1) | (24.2) |
| Prepaid expenses and other current assets | 16.6 | (0.1) | (50.5) |
| Accounts payable | 99.5 | 318.7 | 145.8 |
| Other current liabilities | (217.4) | 92.6 | 136.8 |
| Changes in current assets and liabilities | \$ (232.0) | \$ 258.2 | \$ 214.7 |

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

GENERAL MILLS, INC. AND SUBSIDIARIES

NOTE 1. BASIS OF PRESENTATION AND RECLASSIFICATIONS

Basis of Presentation Our Consolidated Financial Statements include the accounts of General Mills, Inc. and all subsidiaries in which we have a controlling financial interest. Intercompany transactions and accounts, including any noncontrolling and redeemable interests' share of those transactions, are eliminated in consolidation.

Our fiscal year ends on the last Sunday in May. Fiscal years 2017 and 2016 consisted of 52 weeks, while fiscal year 2015 consisted of 53 weeks.

Change in Reporting Period As part of a long-term plan to conform the fiscal year ends of all our operations, in fiscal 2017 we changed the reporting period of General Mills Brasil Alimentos Ltda (Yoki) within our Asia & Latin America segment from an April fiscal year-end to a May fiscal year-end to match our fiscal calendar. Accordingly, in fiscal 2017, our results included 13 months of results from the affected operations. The impact of these changes was not material to our consolidated results of operations. Our General Mills India business remains on an April fiscal year end.

In fiscal 2016 we changed the reporting period of Yoplait SAS and Yoplait Marques SNC within our Europe & Australia segment and Annie's, Inc. (Annie's) within our North America Retail segment from an April fiscal year-end to a May fiscal year-end to match our fiscal calendar. Accordingly, in fiscal 2016, our results included 13 months of results from the affected operations. The impact of these changes was not material to our consolidated results of operations.

Certain reclassifications to our previously reported financial information have been made to conform to the current period presentation.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents We consider all investments purchased with an original maturity of three months or less to be cash equivalents.

Inventories All inventories in the United States other than grain are valued at the lower of cost, using the last-in, first-out (LIFO) method, or market. Grain inventories are valued at net realizable value, and all related cash contracts and derivatives are valued at fair value, with all net changes in value recorded in earnings currently.

Inventories outside of the United States are generally valued at the lower of cost, using the first-in, first-out (FIFO) method, or net realizable value.

Shipping costs associated with the distribution of finished product to our customers are recorded as cost of sales, and are recognized when the related finished product is shipped to and accepted by the customer.

Land, Buildings, Equipment, and Depreciation Land is recorded at historical cost. Buildings and equipment, including capitalized interest and internal engineering costs, are recorded at cost and depreciated over estimated useful lives, primarily using the straight-line method. Ordinary maintenance and repairs are charged to cost of sales. Buildings are usually depreciated over 40 years, and equipment, furniture, and software are usually depreciated over 3 to 10 years. Fully depreciated assets are retained in buildings and equipment until disposal. When an item is sold or retired, the accounts are relieved of its cost and related accumulated depreciation and the resulting gains and losses, if any, are recognized in earnings. As of May 28, 2017, assets held for sale were insignificant.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows from the operation and disposition of the asset group are less than the carrying amount of the asset group. Asset groups have identifiable cash flows and are largely independent of other asset groups. Measurement of an impairment loss would be based on the excess of the carrying amount of the asset group over its fair value. Fair value is measured using a discounted cash flow model or independent appraisals, as appropriate.

Goodwill and Other Intangible Assets Goodwill is not subject to amortization and is tested for impairment annually and whenever events or changes in circumstances indicate that impairment may have occurred. In fiscal 2016, we changed the date of our annual goodwill

and indefinite-lived intangible asset impairment assessment from the first day of the third quarter to the first day of the second quarter to more closely align with the timing of our annual long-range planning process. Impairment testing is performed for each of our reporting units. We compare the carrying value of a reporting unit, including goodwill, to the fair value of the unit. Carrying value is based on the assets and liabilities associated with the operations of that reporting unit, which often requires allocation of shared or corporate items among reporting units. If the carrying amount of a reporting unit exceeds its fair value, we revalue all assets and liabilities of the reporting unit, excluding goodwill, to determine if the fair value of the net assets is greater than the net assets including goodwill. If the fair value of the net assets is less than the carrying amount of net assets including goodwill, impairment has occurred. Our estimates of fair value are determined based on a discounted cash flow model. Growth rates for sales and profits are determined using inputs from our long-range planning process. We also make estimates of discount rates, perpetuity growth assumptions, market comparables, and other factors.

We evaluate the useful lives of our other intangible assets, mainly brands, to determine if they are finite or indefinite-lived. Reaching a determination on useful life requires significant judgments and assumptions regarding the future effects of obsolescence, demand, competition, other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels), the level of required maintenance expenditures, and the expected lives of other related groups of assets. Intangible assets that are deemed to have definite lives are amortized on a straight-line basis, over their useful lives, generally ranging from 4 to 30 years.

Our indefinite-lived intangible assets, mainly intangible assets primarily associated with the *Pillsbury*, *Totino's*, *Progreso*, *Yoplait*, *Old El Paso*, *Yoki*, *Häagen-Dazs*, and *Annie's* brands, are also tested for impairment annually and whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Our estimate of the fair value of the brands is based on a discounted cash flow model using inputs which included projected revenues from our long-range plan, assumed royalty rates that could be payable if we did not own the brands, and a discount rate.

Our finite-lived intangible assets, primarily acquired franchise agreements and customer relationships, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows from the operation and disposition of the asset are less than the carrying amount of the asset. Assets generally have identifiable cash flows and are largely independent of other assets. Measurement of an impairment loss would be based on the excess of the carrying amount of the asset over its fair value. Fair value is measured using a discounted cash flow model or other similar valuation model, as appropriate.

Investments in Unconsolidated Joint Ventures Our investments in companies over which we have the ability to exercise significant influence are stated at cost plus our share of undistributed earnings or losses. We receive royalty income from certain joint ventures, incur various expenses (primarily research and development), and record the tax impact of certain joint venture operations that are structured as partnerships. In addition, we make advances to our joint ventures in the form of loans or capital investments. We also sell certain raw materials, semi-finished goods, and finished goods to the joint ventures, generally at market prices.

In addition, we assess our investments in our joint ventures if we have reason to believe an impairment may have occurred including, but not limited to, as a result of ongoing operating losses, projected decreases in earnings, increases in the weighted average cost of capital, or significant business disruptions. The significant assumptions used to estimate fair value include revenue growth and profitability, royalty rates, capital spending, depreciation and taxes, foreign currency exchange rates, and a discount rate. By their nature, these projections and assumptions are uncertain. If we were to determine the current fair value of our investment was less than the carrying value of the investment, then we would assess if the shortfall was of a temporary or permanent nature and write down the investment to its fair value if we concluded the impairment is other than temporary.

Redeemable Interest We have a 51 percent controlling interest in Yoplait SAS, a consolidated entity. Sodiaal International (Sodiaal) holds the remaining 49 percent interest in Yoplait SAS. 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. This put option requires us to classify Sodiaal's interest as a redeemable interest outside of equity on our Consolidated Balance Sheets for as long as the put is exercisable by Sodiaal. When the put is no longer exercisable, the redeemable interest will be reclassified to non-controlling interests on our Consolidated Balance Sheets. 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. During the second and third quarters of fiscal 2017, we adjusted the redeemable interest's redemption value based on a discounted cash flow model. The significant assumptions used to estimate the redemption value include projected revenue growth and profitability from our long-range plan, capital spending, depreciation, taxes, foreign currency exchange rates, and a discount rate.

Revenue Recognition We recognize sales revenue when the shipment is accepted by our customer. Sales include shipping and handling charges billed to the customer and are reported net of consumer coupon redemption, trade promotion and other costs, including estimated allowances for returns, unsalable product, and prompt pay discounts. Sales, use, value-added, and other excise taxes are not recognized in revenue. Coupons are recorded when distributed, based on estimated redemption rates. Trade promotions are recorded based on estimated participation and performance levels for offered programs at the time of sale. 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. Terms and collection patterns vary around the world and by channel. The 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.

Environmental Environmental costs relating to existing conditions caused by past operations that do not contribute to current or future revenues are expensed.

Liabilities for anticipated remediation costs are recorded on an undiscounted basis when they are probable and reasonably estimable, generally no later than the completion of feasibility studies or our commitment to a plan of action.

Advertising Production Costs We expense the production costs of advertising the first time that the advertising takes place.

Research and Development All expenditures for research and development (R&D) are charged against earnings in the period incurred. R&D includes expenditures for new product and manufacturing process innovation, and the annual expenditures are comprised primarily of internal salaries, wages, consulting, and supplies attributable to R&D activities. Other costs include depreciation and maintenance of research facilities, including assets at facilities that are engaged in pilot plant activities.

Foreign Currency Translation For all significant foreign operations, the functional currency is the local currency. Assets and liabilities of these operations are translated at the period-end exchange rates. Income statement accounts are translated using the average exchange rates prevailing during the period. Translation adjustments are reflected within accumulated other comprehensive loss (AOCI) in stockholders' equity. Gains and losses from foreign currency transactions are included in net earnings for the period, except for gains and losses on investments in subsidiaries for which settlement is not planned for the foreseeable future and foreign exchange gains and losses on instruments designated as net investment hedges. These gains and losses are recorded in AOCI.

Derivative Instruments All derivatives are recognized on our Consolidated Balance Sheets at fair value based on quoted market prices or our estimate of their fair value, and are recorded in either current or noncurrent assets or liabilities based on their maturity. Changes in the fair values of derivatives are recorded in net earnings or other comprehensive income, based on whether the instrument is designated and effective as a hedge transaction and, if so, the type of hedge transaction. Gains or losses on derivative instruments reported in AOCI are reclassified to earnings in the period the hedged item affects earnings. If the underlying hedged

transaction ceases to exist, any associated amounts reported in AOCI are reclassified to earnings at that time. Any ineffectiveness is recognized in earnings in the current period.

Stock-based Compensation We generally measure compensation expense for grants of restricted stock units using the value of a share of our stock on the date of grant. We estimate the value of stock option grants using a Black-Scholes valuation model. Stock-based compensation is recognized straight line over the vesting period. Our stock-based compensation expense is recorded in selling, general and administrative (SG&A) expenses and cost of sales in our Consolidated Statements of Earnings and allocated to each reportable segment in our segment results.

Certain equity-based compensation plans contain provisions that accelerate vesting of awards upon retirement, termination, or death of eligible employees and directors. We consider a stock-based award to be vested when the employee's retention of the award is no longer contingent on providing subsequent service. Accordingly, the related compensation cost is generally recognized immediately for awards granted to retirement-eligible individuals or over the period from the grant date to the date retirement eligibility is achieved, if less than the stated vesting period.

We report the benefits of tax deductions in excess of recognized compensation cost as a financing cash flow, thereby reducing net operating cash flows and increasing net financing cash flows.

Defined Benefit Pension, Other Postretirement Benefit, and Postemployment Benefit Plans We sponsor several domestic and foreign defined benefit plans to provide pension, health care, and other welfare benefits to retired employees. Under certain circumstances, we also provide accruable benefits, primarily severance, to former or inactive employees in the United States, Canada, and Mexico. We recognize an obligation for any of these benefits that vest or accumulate with service. Postemployment benefits that do not vest or accumulate with service (such as severance based solely on annual pay rather than years of service) are charged to expense when incurred. Our postemployment benefit plans are unfunded.

We recognize the underfunded or overfunded status of a defined benefit pension plan as an asset or liability and recognize changes in the funded status in the year in which the changes occur through AOCI.

Use of Estimates Preparing our Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. 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. Actual results could differ from our estimates.

Other New Accounting Standards In the first quarter of fiscal 2017, we adopted new accounting requirements for the presentation of certain investments using the net asset value, providing a practical expedient to exclude such investments from categorization within the fair value hierarchy and separate disclosure. We adopted the guidance retrospectively and restated the fiscal 2016 fair value of plan asset tables in Note 13. The adoption of this guidance did not impact our results of operations or financial position.

In the first quarter of fiscal 2017, we adopted new accounting requirements which permit reporting entities with a fiscal year-end that does not coincide with a month-end to apply a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply such practical expedient consistently to all plans. The adoption of this guidance did not have a material impact on our results of operations or financial position.

In the fourth quarter of fiscal 2016, we adopted new accounting requirements for the presentation of deferred tax assets and liabilities, requiring noncurrent classification for all deferred tax assets and liabilities on the statement of financial position. This presentation change has been implemented retroactively. The adoption of this guidance did not have a material impact on our financial position.

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

In the second quarter of fiscal 2015, we adopted new accounting requirements for share-based payment awards issued based upon specific performance targets. The adoption of this guidance did not have a material impact on our results of operations or financial position.

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

NOTE 3. ACQUISITION AND DIVESTITURES

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

During the fourth quarter of fiscal 2016, we sold our General Mills de Venezuela CA subsidiary to a third party and exited our business in Venezuela. As a result of this transaction, we recorded a pre-tax loss of \$37.6 million. In addition, we sold our General Mills Argentina S.A. foodservice business in Argentina to a third party and recorded a pre-tax loss of \$14.8 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.

During the second quarter of fiscal 2015, we acquired Annie's, a publicly traded food company headquartered

in Berkeley, California, for an aggregate purchase price of \$821.2 million, which we funded by issuing debt. We consolidated Annie's into our Consolidated Balance Sheets and recorded goodwill of \$589.8 million, an indefinite lived intangible asset for the *Annie's* brand of \$244.5 million, and a finite lived customer relationship asset of \$23.9 million. The pro forma effects of this acquisition were not material.

NOTE 4. RESTRUCTURING, IMPAIRMENT, AND OTHER EXIT COSTS

We view our restructuring activities as actions that help us meet our long-term growth targets. Activities we undertake must meet internal rate of return and net present value targets. Each restructuring action normally takes one to two years to complete. At completion (or as each major stage is completed in the case of multi-year programs), the project begins to deliver cash savings and/or reduced depreciation. These activities result in various restructuring costs, including asset write-offs, exit charges including severance, contract termination fees, and decommissioning and other costs. Accelerated depreciation associated with restructured assets, as used in the context of our disclosures regarding restructuring activity, refers to the increase in depreciation expense caused by shortening the useful life or updating the salvage value of depreciable fixed assets to coincide with the end of production under an approved restructuring plan. Any impairment of the asset is recognized immediately in the period the plan is approved.

We are currently pursuing several multi-year restructuring initiatives designed to increase our efficiency and focus our business behind our key growth strategies. Charges recorded in fiscal 2017 related to these initiatives were as follows:

| In Millions | Fiscal 2017 | | | | | |
|--|-------------|------------------|-----------------|--------------------------|---------|---------|
| | Severance | Asset Write-offs | Pension Related | Accelerated Depreciation | Other | Total |
| Global reorganization | \$ 66.3 | \$ — | \$ — | \$ — | \$ 5.8 | \$ 72.1 |
| Closure of Melbourne, Australia plant | 11.4 | 4.5 | — | 5.6 | 0.4 | 21.9 |
| Restructuring of certain international product lines | 7.0 | 37.0 | — | (0.3) | 1.4 | 45.1 |
| Closure of Vineland, New Jersey plant | 12.3 | 7.9 | 1.5 | 14.5 | 5.2 | 41.4 |
| Project Compass | (1.5) | 0.1 | — | 0.2 | 0.8 | (0.4) |
| Project Century | (1.0) | 13.0 | 0.7 | 18.5 | 12.8 | 44.0 |
| Total | \$ 94.5 | \$ 62.5 | \$ 2.2 | \$ 38.5 | \$ 26.4 | \$224.1 |

In the third quarter of fiscal 2017, we approved restructuring actions designed to better align our organizational structure with our strategic initiatives. This action will affect approximately 600 positions, and we expect to incur approximately \$75 million of net expenses relating to these actions, all of which will be cash. We recorded \$72.1 million of restructuring charges relating to these actions in fiscal 2017. We expect these actions to be completed by the end of fiscal 2018.

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 Europe & Australia 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, of which approximately \$3 million will be cash. We recorded \$21.9 million of restructuring charges relating to this action in fiscal 2017. We expect this action to be completed by the end of fiscal 2019.

In the first quarter of fiscal 2017, we announced a plan to restructure certain product lines in our Asia & Latin America segment. To eliminate excess capacity, we closed our snacks manufacturing facility in Marília,

Brazil and ceased production operations for meals and snacks at our facility in São Bernardo do Campo, Brazil. We also ceased production of certain underperforming snack products at our facility in Nanjing, China. These and other actions will affect approximately 420 positions in our Brazilian operations and approximately 440 positions in our Greater China operations. We expect to incur approximately \$42 million of net expenses related to these actions, most of which will be non-cash. We recorded \$45.1 million of restructuring charges relating to these actions in fiscal 2017. We expect these actions to be completed by the end of fiscal 2019.

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 North America Retail segment. This action will affect approximately 380 positions, and we expect to incur approximately \$58 million of net expenses related to this action, of which approximately \$19 million will be cash. We recorded \$41.4 million of restructuring charges relating to this action in fiscal 2017. We expect this action to be completed by the end of fiscal 2019.

Charges recorded in fiscal 2016 were as follows:

| In Millions | Fiscal 2016 | | | | | Total |
|------------------|-------------|------------------|-----------------|--------------------------|---------|---------|
| | Severance | Asset Write-offs | Pension Related | Accelerated Depreciation | Other | |
| Project Compass | \$ 45.4 | \$ — | \$ 1.4 | \$ — | \$ 7.9 | \$ 54.7 |
| Project Catalyst | (8.7) | 1.2 | — | — | — | (7.5) |
| Project Century | 30.9 | 30.7 | 19.1 | 76.5 | 25.4 | 182.6 |
| Total | \$ 67.6 | \$ 31.9 | \$ 20.5 | \$ 76.5 | \$ 33.3 | \$229.8 |

In the first quarter of fiscal 2016, we approved Project Compass, a restructuring plan designed to enable our international operations to accelerate long-term growth through increased organizational effectiveness and reduced administrative expense. In connection with this project, we eliminated 749 positions. We incurred \$54.3 million of net expenses, all of which was cash. In fiscal 2017, we reduced the estimate of charges related to this action by \$0.4 million. We recorded \$54.7 million of restructuring charges relating to this action in fiscal 2016. This action was completed in fiscal 2017.

In fiscal 2015, we announced Project Century (Century) which initially involved a review of our North American manufacturing and distribution network to streamline operations and identify potential capacity reductions. In fiscal 2016, we broadened the scope of

Century to identify opportunities to streamline our supply chain outside of North America.

As part of Century, in the second quarter of fiscal 2016, we approved a restructuring plan to close manufacturing facilities in our Europe & Australia segment supply chain located in Berwick, United Kingdom and East Tamaki, New Zealand. These actions affected 287 positions and we incurred \$31.8 million of net expenses related to these actions, of which \$12 million was cash. We recorded \$1.8 million of restructuring charges relating to these actions in fiscal 2017 and \$30.0 million in fiscal 2016. These actions were completed in fiscal 2017.

As part of Century, in the first quarter of fiscal 2016, we approved a restructuring plan to close our West Chicago, Illinois cereal and dry dinner manufacturing plant in our North America Retail segment supply

chain. This action affected 484 positions, and we expect to incur approximately \$104 million of net expenses relating to this action, of which approximately \$41 million will be cash. We recorded \$23.2 million of restructuring charges relating to this action in fiscal 2017 and \$79.2 million in fiscal 2016. We expect this action to be completed by the end of fiscal 2018.

As part of Century, in the first quarter of fiscal 2016, we approved a restructuring plan to close our Joplin,

Missouri snacks plant in our North America Retail segment's supply chain. This action affected 125 positions, and we incurred \$6.6 million of net expenses relating to this action, of which less than \$1 million was cash. We recorded \$6.3 million of restructuring charges relating to this action in fiscal 2016. This action was completed in fiscal 2016.

Charges recorded in fiscal 2015 were as follows:

| In Millions | Severance | Fiscal 2015 | | | Other | Total |
|--|-----------|------------------|-----------------|--------------------------|---------|---------|
| | | Asset Write-offs | Pension Related | Accelerated Depreciation | | |
| Project Catalyst | \$121.5 | \$ 12.3 | \$ 6.6 | \$ — | \$ 8.0 | \$148.4 |
| Project Century | 44.3 | 42.3 | 31.2 | 53.1 | 10.9 | 181.8 |
| Combination of certain operational facilities | 13.0 | 0.7 | — | — | 0.2 | 13.9 |
| Charges associated with restructuring actions previously announced | (0.6) | — | — | — | — | (0.6) |
| Total | \$178.2 | \$ 55.3 | \$ 37.8 | \$ 53.1 | \$ 19.1 | \$343.5 |

In the second quarter of fiscal 2015, we approved Project Catalyst, a restructuring plan to increase organizational effectiveness and reduce overhead expense. In connection with this project, 759 positions were impacted, primarily in the United States. We incurred \$140.9 million of net expenses relating to this action of which approximately \$94 million was cash. We recorded \$148.4 million of restructuring charges relating to this action in fiscal 2015. This action was substantially completed in fiscal 2015.

As part of Century, in the third quarter of fiscal 2015, we approved a restructuring plan to reduce our refrigerated dough capacity and exit our Midland, Ontario, Canada and New Albany, Indiana facilities, which support our North America Retail and Convenience Stores & Foodservice segments' supply chains. The Midland action affected 94 positions and we expect to incur approximately \$13 million of net expenses relating to this action, of which approximately \$7 million will be cash. We recorded \$1.8 million of restructuring charges relating to this action in fiscal 2017, \$2.7 million in fiscal 2016 and \$6.5 million in fiscal 2015. The New Albany action will affect 412 positions, and we expect to incur approximately \$83 million of net expenses relating to this action of which approximately \$40 million will be cash. We recorded \$14.6 million of restructuring charges relating to this action in fiscal 2017, \$17.1 million in fiscal 2016 and \$51.3 million in fiscal 2015. We anticipate these actions will be completed by the end of fiscal 2018.

As part of Century, in the second quarter of fiscal 2015, we approved a restructuring plan to consolidate yogurt manufacturing capacity and exit our Methuen, Massachusetts facility in our North America Retail and Convenience Stores & Foodservice segments' supply chains. This action affected 170 positions. We incurred \$59.7 million of net expenses relating to this action of which \$13 million was cash. We recorded \$15.6 million of restructuring charges relating to this action in fiscal 2016 and \$43.6 million in fiscal 2015. This action was substantially completed in fiscal 2017.

As part of Century, in the second quarter of fiscal 2015, we approved a restructuring plan to eliminate excess cereal and dry mix capacity and exit our Lodi, California facility in our North America Retail segment supply chain. This action affected 409 positions. We incurred \$95.3 million of net expenses related to this action of which \$22 million was cash. We recorded \$1.5 million of restructuring charges relating to this action in fiscal 2017, \$30.6 million in fiscal 2016 and \$63.2 million in fiscal 2015. This action was substantially completed in fiscal 2016.

In addition to the actions taken at certain facilities described above, we incurred restructuring charges related to Century of \$1.1 million in fiscal 2017, none of which was cash, \$1.1 million in fiscal 2016 and \$17.2 million in fiscal 2015.

During the first quarter of fiscal 2015, we approved a plan to combine certain Yoplait and General Mills

operational facilities within our North America Retail and Europe & Australia segments to increase efficiencies and reduce costs. This action affected approximately 240 positions. We expect to incur \$15 million of net expenses relating to this action of which \$14 million will be cash. We recorded \$13.9 million of restructuring charges in fiscal 2015. We anticipate these actions will be completed by the end of fiscal 2018.

We paid cash related to restructuring initiatives of \$107.8 million in fiscal 2017, \$122.6 million in fiscal 2016 and \$63.6 million in fiscal 2015.

In addition to restructuring charges, we expect to incur approximately \$130 million of additional project-related costs, which will be recorded in cost of sales, all of which will be cash. We recorded project-related costs in cost of sales of \$43.9 million in fiscal 2017, \$57.5 million in fiscal 2016 and \$13.2 million in fiscal 2015. We paid cash for project-related costs of \$46.9 million in fiscal 2017, \$54.5 million in fiscal 2016 and \$9.7 million in fiscal 2015.

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

| In Millions | Fiscal | | |
|--|---------|---------|---------|
| | 2017 | 2016 | 2015 |
| Cost of sales | \$ 41.5 | \$ 78.4 | \$ 59.6 |
| Restructuring, impairment, and other exit costs | 182.6 | 151.4 | 283.9 |
| Total restructuring charges | 224.1 | 229.8 | 343.5 |
| Project-related costs classified in cost of sales | \$ 43.9 | \$ 57.5 | \$ 13.2 |

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 25, 2014 | \$ 3.5 | \$ — | \$ — | \$ 3.5 |
| Fiscal 2015 charges, including foreign currency translation | 176.4 | 0.6 | 8.1 | 185.1 |
| Utilized in fiscal 2015 | (61.3) | — | (6.5) | (67.8) |
| Reserve balance as of May 31, 2015 | 118.6 | 0.6 | 1.6 | 120.8 |
| Fiscal 2016 charges, including foreign currency translation | 64.3 | 1.6 | 4.3 | 70.2 |
| Utilized in fiscal 2016 | (109.3) | (0.7) | (4.4) | (114.4) |
| Reserve balance as of May 29, 2016 | 73.6 | 1.5 | 1.5 | 76.6 |
| Fiscal 2017 charges, including foreign currency translation | 95.0 | 0.9 | 8.1 | 104.0 |
| Utilized in fiscal 2017 | (86.8) | (1.7) | (7.1) | (95.6) |
| Reserve balance as of May 28, 2017 | \$ 81.8 | \$ 0.7 | \$ 2.5 | \$ 85.0 |

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, 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.

NOTE 5. INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES

We have a 50 percent equity interest in Cereal Partners Worldwide (CPW), which manufactures and markets ready-to-eat cereal products in more than 130 countries outside the United States and Canada. CPW also markets cereal bars in several European countries and manufactures private label cereals for customers in the United Kingdom. We have guaranteed a portion of CPW's debt and its pension obligation in the United Kingdom.

We also have a 50 percent equity interest in *Häagen-Dazs* Japan, Inc. (HDJ). This joint venture manufactures and markets Häagen-Dazs ice cream products and frozen novelties.

Results from our CPW and HDJ joint ventures are reported for the 12 months ended March 31.

Joint venture related balance sheet activity follows:

| In Millions | May 28, 2017 | May 29, 2016 |
|---|-----------------|-----------------|
| Cumulative investments | \$505.3 | \$518.9 |
| Goodwill and other intangibles | 472.0 | 469.2 |
| Aggregate advances included in cumulative investments | 284.7 | 300.3 |

Joint venture earnings and cash flow activity follows:

| In Millions | Fiscal Year | | |
|---------------------------|-------------|---------|---------|
| | 2017 | 2016 | 2015 |
| Sales to joint ventures | \$ 7.0 | \$ 10.5 | \$ 11.6 |
| Net advances (repayments) | (3.3) | (63.9) | 102.4 |
| Dividends received | 75.6 | 75.1 | 72.6 |

Summary combined financial information for the joint ventures on a 100 percent basis follows:

| In Millions | Fiscal Year | | |
|------------------------------|-------------|-----------|-----------|
| | 2017 | 2016 | 2015 |
| Net sales: | | | |
| CPW | \$1,648.4 | \$1,674.8 | \$1,894.5 |
| HDJ | 435.1 | 369.4 | 370.2 |
| Total net sales | 2,083.5 | 2,044.2 | 2,264.7 |
| Gross margin | 865.9 | 867.6 | 925.4 |
| Earnings before income taxes | 243.3 | 234.8 | 220.9 |
| Earnings after income taxes | 190.3 | 186.7 | 170.7 |

| In Millions | May 28, 2017 | May 29, 2016 |
|------------------------|-----------------|-----------------|
| Current assets | \$ 849.7 | \$ 814.1 |
| Noncurrent assets | 858.9 | 959.9 |
| Current liabilities | 1,469.6 | 1,457.3 |
| Noncurrent liabilities | 55.2 | 81.7 |

NOTE 6. GOODWILL AND OTHER INTANGIBLE ASSETS

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

| In Millions | May 28, 2017 | May 29, 2016 |
|--|-----------------|-----------------|
| Goodwill | \$ 8,747.2 | \$ 8,741.2 |
| Other intangible assets: | | |
| Intangible assets not subject to amortization: | | |
| Brands and other indefinite-lived intangibles | 4,161.1 | 4,147.5 |
| Intangible assets subject to amortization: | | |
| Franchise agreements, customer relationships, and other finite-lived intangibles | 524.8 | 536.9 |
| Less accumulated amortization | (155.5) | (145.8) |
| Intangible assets subject to amortization | 369.3 | 391.1 |
| Other intangible assets | 4,530.4 | 4,538.6 |
| Total | \$13,277.6 | \$13,279.8 |

Based on the carrying value of finite-lived intangible assets as of May 28, 2017, amortization expense for each of the next five fiscal years is estimated to be approximately \$28 million.

During the third quarter of fiscal 2017, we announced a new global organization structure to streamline our leadership, enhance global scale, and drive improved operational agility to maximize our growth capabilities. As a result of this global reorganization, we reassessed our operating segments and our reporting units. Under our new organization structure, our chief operating decision maker assesses performance and makes decisions about resources to be allocated to our segments at the North America Retail, Convenience Stores & Foodservice, Europe & Australia, and Asia & Latin America operating segment level. See Note 16 for additional information on our operating segments. Our reporting units were unchanged with the exception of combining our former U.S. Meals and U.S. Baking reporting units into a single reporting unit.

The changes in the carrying amount of goodwill for fiscal 2015, 2016, and 2017 are as follows:

| In Millions | North America Retail | Convenience Stores & Foodservice | Europe & Australia | Asia & Latin America | Joint Ventures | Total |
|--|----------------------|----------------------------------|--------------------|----------------------|----------------|------------------|
| Balance as of May 25, 2014 | \$5,975.1 | \$921.1 | \$866.1 | \$390.0 | \$498.2 | \$8,650.5 |
| Acquisition | 589.8 | — | — | — | — | 589.8 |
| Other activity, primarily foreign currency translation | (18.7) | — | (147.0) | (103.0) | (96.7) | (365.4) |
| Balance as of May 31, 2015 | 6,546.2 | 921.1 | 719.1 | 287.0 | 401.5 | 8,874.9 |
| Acquisitions | 54.1 | — | — | 29.4 | — | 83.5 |
| Divestitures | (184.5) | — | — | (1.9) | — | (186.4) |
| Other activity, primarily foreign currency translation | (5.5) | — | (2.6) | (27.4) | 4.7 | (30.8) |
| Balance as of May 29, 2016 | 6,410.3 | 921.1 | 716.5 | 287.1 | 406.2 | 8,741.2 |
| Divestiture | — | (2.3) | — | — | — | (2.3) |
| Other activity, primarily foreign currency translation | (3.8) | — | (15.7) | 25.3 | 2.5 | 8.3 |
| Balance as of May 28, 2017 | \$6,406.5 | \$918.8 | \$700.8 | \$312.4 | \$408.7 | \$8,747.2 |

The changes in the carrying amount of other intangible assets for fiscal 2015, 2016, and 2017 are as follows:

| In Millions | Total |
|---|------------------|
| Balance as of May 25, 2014 | \$5,014.3 |
| Acquisition | 268.4 |
| Impairment charge | (260.0) |
| Other activity, primarily amortization and foreign currency translation | (345.7) |
| Balance as of May 31, 2015 | 4,677.0 |
| Acquisitions | 30.1 |
| Divestiture | (119.6) |
| Other activity, primarily amortization and foreign currency translation | (48.9) |
| Balance as of May 29, 2016 | 4,538.6 |
| Other activity, primarily amortization and foreign currency translation | (8.2) |
| Balance as of May 28, 2017 | \$4,530.4 |

Our annual goodwill intangible asset test was performed on the first day of the second quarter of fiscal 2017. As of the assessment date, we determined there was no impairment of our goodwill intangible assets as their related fair values were substantially in excess of the carrying values, except for the Latin America reporting unit. We did not consider the new organization structure to be a triggering event requiring a subsequent goodwill impairment test as our reporting units remain unchanged, with the exception of combining the former U.S. Meals and U.S. Baking reporting units.

Our indefinite-lived intangible asset test 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 indefinite-lived intangible assets as their related fair values were substantially in excess of the carrying values, except for the *Immaculate Baking* brand intangible asset.

The excess fair value above the carrying value of the Latin America reporting unit and the *Immaculate Baking* brand intangible asset is as follows:

| In Millions | Carrying Value | Excess Fair Value Above Carrying Value |
|--------------------------|----------------|--|
| Latin America | \$523.0 | 15% |
| <i>Immaculate Baking</i> | \$12.0 | 17% |

While having significant coverage as of our fiscal 2017 assessment date, the *Progresso*, *Green Giant*, and *Food Should Taste Good* brand intangible assets and U.S. Yogurt reporting unit had risk of decreasing coverage. We will continue to monitor these businesses for potential impairment.

In fiscal 2015, we made a strategic decision to redirect certain resources supporting our Green Giant business in our North America Retail segment to other businesses within the segment. Therefore, future sales and profitability projections in our long-range plan for this business declined. As a result of this triggering event, we performed an interim impairment assessment of

the *Green Giant* brand intangible asset as of May 31, 2015, and determined that the fair value of the brand asset no longer exceeded the carrying value of the asset. Significant assumptions used in that assessment included our updated long-range cash flow projections for the Green Giant business, an updated royalty rate, a weighted-average cost of capital, and a tax rate. We recorded a \$260.0 million impairment charge in restructuring, impairment, and other exit costs in fiscal 2015 related to this asset.

NOTE 7. FINANCIAL INSTRUMENTS, RISK MANAGEMENT ACTIVITIES, AND FAIR VALUES

Financial Instruments

The carrying values of cash and cash equivalents, receivables, accounts payable, other current liabilities, and notes payable approximate fair value. Marketable securities are carried at fair value. As of May 28, 2017 and May 29, 2016, a comparison of cost and market values of our marketable debt and equity securities is as follows:

| In Millions | Cost | | Fair Value | | Gross Gains | | Gross Losses | |
|---------------------|-------------|---------|-------------|---------|-------------|-------|--------------|------|
| | Fiscal Year | | Fiscal Year | | Fiscal Year | | Fiscal Year | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Available for sale: | | | | | | | | |
| Debt securities | \$265.4 | \$165.7 | \$265.5 | \$165.8 | \$0.1 | \$0.1 | \$— | \$— |
| Equity securities | 1.8 | 1.8 | 9.9 | 8.4 | 8.1 | 6.6 | — | — |
| Total | \$267.2 | \$167.5 | \$275.4 | \$174.2 | \$8.2 | \$6.7 | \$— | \$— |

There were no realized gains or losses from sales of available-for-sale marketable securities. Gains and losses are determined by specific identification. Classification of marketable securities as current or noncurrent is dependent upon our intended holding period and the security's maturity date. The aggregate unrealized gains and losses on available-for-sale securities, net of tax effects, are classified in AOCI within stockholders' equity.

Scheduled maturities of our marketable securities are as follows:

| In Millions | Available for Sale | |
|------------------------|--------------------|------------|
| | Cost | Fair Value |
| Under 1 year (current) | \$265.4 | \$265.5 |
| Equity securities | 1.8 | 9.9 |
| Total | \$267.2 | \$275.4 |

As of May 28, 2017, we did not any have cash and cash equivalents pledged as collateral for derivative contracts. As of May 28, 2017, \$19.6 million of certain accounts receivable were pledged as collateral against a foreign uncommitted line of credit.

The fair value and carrying amounts of long-term debt, including the current portion, were \$8,547.0 million and \$8,247.6 million, respectively, as of May 28, 2017. The fair value of long-term debt was estimated using market quotations and discounted cash flows based on our current incremental borrowing rates for similar types of instruments. Long-term debt is a Level 2 liability in the fair value hierarchy.

Risk Management Activities

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

Commodity Price Risk

Many commodities we use in the production and distribution of our products are exposed to market price risks. We utilize derivatives to manage price risk for our principal ingredients and energy costs, including grains (oats, wheat, and corn), oils (principally soybean), 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 fiscal 2017, 2016 and 2015 included:

| In Millions | Fiscal Year | | |
|---|-------------|-----------|-----------|
| | 2017 | 2016 | 2015 |
| Net loss on mark-to-market valuation of commodity positions | \$ (22.0) | \$ (69.1) | \$(163.7) |
| Net loss on commodity positions reclassified from unallocated corporate items to segment operating profit | 32.0 | 127.9 | 84.4 |
| Net mark-to-market revaluation of certain grain inventories | 3.9 | 4.0 | (10.4) |
| Net mark-to-market valuation of certain commodity positions recognized in unallocated corporate items | \$ 13.9 | \$ 62.8 | \$(89.7) |

As of May 28, 2017, the net notional value of commodity derivatives was \$410.3 million, of which \$289.6 million related to agricultural inputs and \$120.7 million related to energy inputs. These contracts relate to inputs that generally will be utilized within the next 12 months.

Interest Rate Risk

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

Floating Interest Rate Exposures — Floating-to-fixed interest rate swaps are accounted for as cash flow hedges, as are all hedges of forecasted issuances of debt. Effectiveness is assessed based on either the perfectly effective hypothetical derivative method or changes in the present value of interest payments on the underlying debt. Effective gains and losses deferred to AOCI are reclassified into earnings over the life of the associated debt. Ineffective gains and losses are recorded as net interest. The amount of hedge ineffectiveness was less than \$1 million in each of fiscal 2017, 2016, and 2015.

Fixed Interest Rate Exposures — Fixed-to-floating interest rate swaps are accounted for as fair value hedges with effectiveness assessed based on changes in the fair value of the underlying debt and derivatives, using incremental borrowing rates currently available on loans with similar terms and maturities. Ineffective gains and losses on these derivatives and the underlying hedged items are recorded as net interest. The amount of hedge ineffectiveness was a \$4.3 million gain in fiscal 2017, less than \$1 million in fiscal 2016, and a \$1.6 million gain in fiscal 2015.

In advance of planned debt financing, in the first quarter of fiscal 2017 and the third quarter of fiscal 2016, we entered into \$100 million and \$400 million, respectively, of treasury locks due February 15, 2017 with an average fixed rate of 2.0 percent. All of these treasury locks were cash settled for \$17.2 million during the third quarter of fiscal 2017, concurrent with the issuance of our \$750.0 million 10-year fixed-rate notes.

In fiscal 2015, we entered into swaps to convert \$500.0 million of 1.4 percent fixed-rate notes due October 20, 2017, and \$500.0 million of 2.2 percent fixed-rate notes due October 21, 2019, to floating rates.

As of May 28, 2017, the pre-tax amount of cash-settled interest rate hedge gain or loss remaining in AOCI, which will be reclassified to earnings over the remaining term of the related underlying debt, follows:

| In Millions | Gain/(Loss) |
|-----------------------------------|-------------|
| 5.65% notes due February 15, 2019 | \$ 0.8 |
| 3.15% notes due December 15, 2021 | (45.0) |
| 1.0% notes due April 27, 2023 | (1.4) |
| 3.65% notes due February 15, 2024 | 12.0 |
| 3.2% notes due February 10, 2027 | 16.6 |
| 1.5% notes due April 27, 2027 | (3.2) |
| 5.4% notes due June 15, 2040 | (12.9) |
| 4.15% notes due February 15, 2043 | 10.1 |
| Net pre-tax hedge loss in AOCI | \$(23.0) |

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

| In Millions | May 28, 2017 | May 29, 2016 |
|--------------------------------------|-----------------|-----------------|
| Pay-floating swaps - notional amount | \$ 1,000.0 | \$ 1,000.0 |
| Average receive rate | 1.8% | 1.8% |
| Average pay rate | 1.6% | 1.1% |

The swap contracts mature as follows:

| In Millions | Pay Floating |
|-------------|--------------|
| 2018 | \$ 500.0 |
| 2020 | \$ 500.0 |
| Total | \$ 1,000.0 |

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

| May 28, 2017 | | | | | | | | | | | | |
|----------------------------------|---|---|---------------------------------|---|--------------------------------|-------------------|--|--|--------------------------------------|---|-------------------------------|-------------------|
| In Millions | Assets | | | | | | Liabilities | | | | | |
| | Gross Amounts of Recognized Assets | Gross Liabilities Offset in the Balance Sheet (a) | Net Amounts of Assets (b) | Gross Amounts Not Offset in the Balance Sheet (e) | | Net Amount (c) | Gross Amounts of Recognized Liabilities | Gross Assets Offset in the Balance Sheet (a) | Net Amounts of Liabilities (b) | Gross Amounts Not Offset in the Balance Sheet (e) | | Net Amount (d) |
| | | | | Financial Instruments | Cash Collateral Received | | | | | Financial Instruments | Cash Collateral Pledged | |
| Commodity contracts | \$ 11.5 | \$ — | \$ 11.5 | \$ (7.2) | \$ — | \$ 4.3 | \$(8.2) | \$ — | \$(8.2) | \$ 7.2 | \$ — | \$(1.0) |
| Interest rate contracts | 0.9 | — | 0.9 | (0.5) | — | 0.4 | (0.5) | — | (0.5) | 0.5 | — | — |
| Foreign exchange contracts | 16.5 | — | 16.5 | (7.2) | — | 9.3 | (10.2) | — | (10.2) | 7.2 | — | (3.0) |
| Equity contracts | 1.9 | — | 1.9 | — | — | 1.9 | — | — | — | — | — | — |
| Total | \$30.8 | \$ — | \$30.8 | \$(14.9) | \$ — | \$15.9 | \$(18.9) | \$ — | \$(18.9) | \$14.9 | \$ — | \$(4.0) |

(a) Includes related collateral offset in our Consolidated Balance Sheets.

(b) Net fair value as recorded in our Consolidated Balance Sheets.

(c) Fair value of assets that could be reported net in our Consolidated Balance Sheets.

(d) Fair value of liabilities that could be reported net in our Consolidated Balance Sheets.

(e) Fair value of assets and liabilities reported on a gross basis in our Consolidated Balance Sheets.

| May 29, 2016 | | | | | | | | | | | | |
|----------------------------------|---|---|---------------------------------|---|--------------------------------|-------------------|--|--|--------------------------------------|---|-------------------------------|-------------------|
| In Millions | Assets | | | | | | Liabilities | | | | | |
| | Gross Amounts of Recognized Assets | Gross Liabilities Offset in the Balance Sheet (a) | Net Amounts of Assets (b) | Gross Amounts Not Offset in the Balance Sheet (e) | | Net Amount (c) | Gross Amounts of Recognized Liabilities | Gross Assets Offset in the Balance Sheet (a) | Net Amounts of Liabilities (b) | Gross Amounts Not Offset in the Balance Sheet (e) | | Net Amount (d) |
| | | | | Financial Instruments | Cash Collateral Received | | | | | Financial Instruments | Cash Collateral Pledged | |
| Commodity contracts | \$ 4.4 | \$ — | \$ 4.4 | \$ (3.9) | \$ — | \$ 0.5 | \$(22.2) | \$ — | \$(22.2) | \$ 3.9 | \$ 7.5 | \$(10.8) |
| Interest rate contracts | 8.5 | — | 8.5 | — | — | 8.5 | (3.0) | — | (3.0) | — | — | (3.0) |
| Foreign exchange contracts | 25.4 | — | 25.4 | (8.7) | — | 16.7 | (13.7) | — | (13.7) | 8.7 | — | (5.0) |
| Equity contracts | 2.4 | — | 2.4 | — | — | 2.4 | — | — | — | — | — | — |
| Total | \$40.7 | \$ — | \$40.7 | \$(12.6) | \$ — | \$28.1 | \$(38.9) | \$ — | \$(38.9) | \$12.6 | \$ 7.5 | \$(18.8) |

(a) Includes related collateral offset in our Consolidated Balance Sheets.

(b) Net fair value as recorded in our Consolidated Balance Sheets.

(c) Fair value of assets that could be reported net in our Consolidated Balance Sheets.

(d) Fair value of liabilities that could be reported net in our Consolidated Balance Sheets.

(e) Fair value of assets and liabilities reported on a gross basis in our Consolidated Balance Sheets.

Foreign Exchange Risk

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

As of May 28, 2017, the net notional value of foreign exchange derivatives was \$850.2 million. The amount of hedge ineffectiveness was less than \$1 million in each of fiscal 2017, 2016, and 2015.

We also have many net investments in foreign subsidiaries that are denominated in euros. We previously

hedged a portion of these net investments by issuing euro-denominated commercial paper and foreign exchange forward contracts. As of May 28, 2017, we hedged a portion of these net investments with €2,200 million of euro denominated bonds. As of May 28, 2017, we had deferred net foreign currency transaction losses of \$39.1 million in AOCI associated with net investment hedging activity.

Venezuela is a highly inflationary economy and as such, we remeasured the value of the assets and liabilities of our former Venezuelan subsidiary based on the exchange rate at which we expected to remit dividends in U.S. dollars from the SIMADI market. In fiscal 2015, we recorded an \$8 million foreign exchange loss. In the fourth quarter of fiscal 2016, we sold our General Mills de Venezuela CA subsidiary to a third party and exited our business in Venezuela.

Equity Instruments

Equity price movements affect our compensation expense as certain investments made by our employees in our deferred compensation plan are revalued. We use equity swaps to manage this risk. As of May 28, 2017, the net notional amount of our equity swaps was \$138.9 million. These swap contracts mature in fiscal 2018.

Fair Value Measurements and Financial Statement Presentation

The fair values of our assets, liabilities, and derivative positions recorded at fair value and their respective levels in the fair value hierarchy as of May 28, 2017 and May 29, 2016, were as follows:

| In Millions | May 28, 2017 | | | | May 28, 2017 | | | |
|--|-----------------------|----------|---------|----------|----------------------------|-----------|---------|-----------|
| | Fair Values of Assets | | | | Fair Values of Liabilities | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Derivatives designated as hedging instruments: | | | | | | | | |
| Interest rate contracts ^{(a) (b)} | \$ — | \$ 0.7 | \$ — | \$ 0.7 | \$ — | \$ (0.4) | \$ — | \$ (0.4) |
| Foreign exchange contracts ^{(c) (d)} | — | 16.3 | — | 16.3 | — | (3.6) | — | (3.6) |
| Total | — | 17.0 | — | 17.0 | — | (4.0) | — | (4.0) |
| Derivatives not designated as hedging instruments: | | | | | | | | |
| Foreign exchange contracts ^{(c) (d)} | — | 0.2 | — | 0.2 | — | (6.6) | — | (6.6) |
| Commodity contracts ^{(c) (e)} | 4.1 | 7.4 | — | 11.5 | (3.4) | (4.8) | — | (8.2) |
| Grain contracts ^{(c) (e)} | — | 2.7 | — | 2.7 | — | (5.6) | — | (5.6) |
| Total | 4.1 | 10.3 | — | 14.4 | (3.4) | (17.0) | — | (20.4) |
| Other assets and liabilities reported at fair value: | | | | | | | | |
| Marketable investments ^{(a) (f)} | 9.9 | 265.5 | — | 275.4 | — | — | — | — |
| Long-lived assets ^(g) | — | 43.7 | — | 43.7 | — | — | — | — |
| Total | 9.9 | 309.2 | — | 319.1 | — | — | — | — |
| Total assets, liabilities, and derivative positions recorded at fair value | \$ 14.0 | \$ 336.5 | \$ — | \$ 350.5 | \$ (3.4) | \$ (21.0) | \$ — | \$ (24.4) |

(a) These contracts and investments are recorded as prepaid expenses and other current assets, other assets, other current liabilities or other liabilities, as appropriate, based on whether in a gain or loss position. Certain marketable investments are recorded as cash and cash equivalents.

(b) Based on LIBOR and swap rates.

(c) These contracts are recorded as prepaid expenses and other current assets, other assets, other current liabilities, or other liabilities, as appropriate, based on whether in a gain or loss position.

(d) Based on observable market transactions of spot currency rates and forward currency prices.

(e) Based on prices of futures exchanges and recently reported transactions in the marketplace.

(f) Based on prices of common stock and bond matrix pricing.

(g) We recorded \$47.4 million in non-cash impairment charges in fiscal 2017 to write down certain long-lived assets to their fair value. Fair value was based on recently reported transactions for similar assets in the marketplace. These assets had a carrying value of \$91.1 million and were associated with the restructuring actions described in Note 4.

| In Millions | May 29, 2016 | | | | May 29, 2016 | | | |
|--|-----------------------|---------|---------|---------|----------------------------|----------|---------|----------|
| | Fair Values of Assets | | | | Fair Values of Liabilities | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Derivatives designated as hedging instruments: | | | | | | | | |
| Interest rate contracts ^{(a) (b)} | \$ — | \$ 7.7 | \$ — | \$ 7.7 | \$ — | \$ (3.0) | \$ — | \$ (3.0) |
| Foreign exchange contracts ^{(c) (d)} | — | 12.2 | — | 12.2 | — | (12.2) | — | (12.2) |
| Total | — | 19.9 | — | 19.9 | — | (15.2) | — | (15.2) |
| Derivatives not designated as hedging instruments: | | | | | | | | |
| Foreign exchange contracts ^{(c) (d)} | — | 13.2 | — | 13.2 | — | (1.5) | — | (1.5) |
| Commodity contracts ^{(c) (e)} | 2.6 | 1.7 | — | 4.3 | (0.6) | (21.6) | — | (22.2) |
| Grain contracts ^{(c) (e)} | — | 1.8 | — | 1.8 | — | (5.5) | — | (5.5) |
| Total | 2.6 | 16.7 | — | 19.3 | (0.6) | (28.6) | — | (29.2) |
| Other assets and liabilities reported at fair value: | | | | | | | | |
| Marketable investments ^{(a) (f)} | 8.4 | 165.8 | — | 174.2 | — | — | — | — |
| Long-lived assets ^(g) | — | 26.0 | — | 26.0 | — | — | — | — |
| Total | 8.4 | 191.8 | — | 200.2 | — | — | — | — |
| Total assets, liabilities, and derivative positions recorded at fair value | \$11.0 | \$228.4 | \$ — | \$239.4 | \$ (0.6) | \$(43.8) | \$ — | \$(44.4) |

(a) These contracts and investments are recorded as prepaid expenses and other current assets, other assets, other current liabilities or other liabilities, as appropriate, based on whether in a gain or loss position. Certain marketable investments are recorded as cash and cash equivalents.

(b) Based on LIBOR and swap rates.

(c) These contracts are recorded as prepaid expenses and other current assets or as other current liabilities, as appropriate, based on whether in a gain or loss position.

(d) Based on observable market transactions of spot currency rates and forward currency prices.

(e) Based on prices of futures exchanges and recently reported transactions in the marketplace.

(f) Based on prices of common stock and bond matrix pricing.

(g) We recorded \$11.4 million in non-cash impairment charges in fiscal 2016 to write down certain long-lived assets to their fair value. Fair value was based on recently reported transactions for similar assets in the marketplace. These assets had a carrying value of \$28.2 million and were associated with the restructuring actions described in Note 4.

We did not significantly change our valuation techniques from prior periods.

Information related to our cash flow hedges, fair value hedges, and other derivatives not designated as hedging instruments for the fiscal years ended May 28, 2017 and May 29, 2016, follows:

| In Millions | Interest Rate Contracts | | Foreign Exchange Contracts | | Equity Contracts | | Commodity Contracts | | Total | |
|---|-------------------------|----------|----------------------------|--------|------------------|-------|---------------------|--------|-------------|--------|
| | Fiscal Year | | Fiscal Year | | Fiscal Year | | Fiscal Year | | Fiscal Year | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Derivatives in Cash Flow Hedging Relationships: | | | | | | | | | | |
| Amount of gain (loss) recognized in other comprehensive income (OCI) ^(a) | \$ 24.0 | \$ (2.6) | \$46.3 | \$21.2 | \$ — | \$ — | \$ — | \$ — | \$ 70.3 | \$18.6 |
| Amount of net gain (loss) reclassified from AOCI into earnings ^{(a) (b)} | (5.0) | (10.6) | 33.8 | 22.1 | — | — | — | — | 28.8 | 11.5 |
| Amount of net gain (loss) recognized in earnings ^(c) | 0.1 | (0.1) | 0.6 | (0.7) | — | — | — | — | 0.7 | (0.8) |
| Derivatives in Fair Value Hedging Relationships: | | | | | | | | | | |
| Amount of net gain recognized in earnings ^(d) | 4.3 | 0.1 | — | — | — | — | — | — | 4.3 | 0.1 |
| Derivatives in Net Investment Hedging Relationships: | | | | | | | | | | |
| Amount of loss recognized in OCI ^(a) | — | — | — | (0.2) | — | — | — | — | — | (0.2) |
| Derivatives Not Designated as Hedging Instruments: | | | | | | | | | | |
| Amount of net gain (loss) recognized in earnings ^(d) | — | — | 7.6 | 1.1 | 17.8 | (4.5) | (16.2) | (56.1) | 9.2 | (59.5) |

(a) Effective portion.

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

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

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

Amounts Recorded in Accumulated Other Comprehensive Loss

As of May 28, 2017, the after-tax amounts of unrealized gains and losses in AOCI related to hedge derivatives follows:

| In Millions | After-Tax Gain/(Loss) |
|---|-----------------------|
| Unrealized losses from interest rate cash flow hedges | \$ (12.9) |
| Unrealized gains from foreign currency cash flow hedges | 14.4 |
| After-tax gain in AOCI related to hedge derivatives | \$ 1.5 |

The net amount of pre-tax gains and losses in AOCI as of May 28, 2017 that we expect to be reclassified into net earnings within the next 12 months is \$11.7 million of gain.

Credit-Risk-Related Contingent Features

Certain of our derivative instruments contain provisions that require us to maintain an investment grade credit rating on our debt from each of the major credit rating agencies. If our debt were to fall below investment grade, the counterparties to the derivative instruments could request full collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on May 28, 2017, was \$1.0 million. We have posted no collateral under these contracts. If the credit-risk-related contingent features underlying these agreements had been triggered on May 28, 2017, we would have been required to post \$1.0 million of collateral to counterparties.

Concentrations of Credit and Counterparty Credit Risk

During fiscal 2017, customer concentration was as follows:

| Percent of total | Consolidated | North America | Convenience Stores & Foodservice | Europe & Australia | Asia & Latin America |
|--------------------------|--------------|---------------|----------------------------------|--------------------|----------------------|
| | | Retail | | | |
| Wal-mart: ^(a) | | | | | |
| Net sales | 20% | 29% | 7% | 2% | 4% |
| Accounts receivable | | 24% | 8% | 1% | 4% |
| Five largest customers: | | | | | |
| Net sales | | 52% | 48% | 31% | 10% |

(a) Includes Wal-Mart Stores, Inc. and its affiliates.

No customer other than Wal-Mart accounted for 10 percent or more of our consolidated net sales.

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

The amount of loss due to the credit risk of the counterparties, should the counterparties fail to perform according to the terms of the contracts, is \$5.8 million against which we do not hold collateral. Under the terms of our swap agreements, some of our transactions require collateral or other security to support financial instruments subject to threshold levels of exposure and counterparty credit risk. Collateral assets are either cash or U.S. Treasury instruments and are held in a trust account that we may access if the counterparty defaults.

We offer certain suppliers access to third party services that allows 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 supplier agreements. As of May 28, 2017, \$639.0 million of our accounts payable is payable to suppliers who utilize these third party services.

NOTE 8. DEBT

Notes Payable The components of notes payable and their respective weighted-average interest rates at the end of the periods were as follows:

| In Millions | May 28, 2017 | | May 29, 2016 | |
|------------------------|---------------|--------------------------------|---------------|--------------------------------|
| | Notes Payable | Weighted-average Interest Rate | Notes Payable | Weighted-average Interest Rate |
| U.S. commercial paper | \$ 954.7 | 1.1% | \$ — | —% |
| Financial institutions | 279.4 | 7.0 | 269.8 | 8.6 |
| Total | \$1,234.1 | 2.4% | \$269.8 | 8.6% |

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 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 May 28, 2017:

| In Billions | Facility Amount | Borrowed Amount |
|---|-----------------|-----------------|
| Credit facility expiring: | | |
| May 2022 | \$ 2.7 | \$ — |
| June 2019 | 0.2 | 0.1 |
| Total committed credit facilities | 2.9 | 0.1 |
| Uncommitted credit facilities | 0.5 | 0.1 |
| Total committed and uncommitted credit facilities | \$ 3.4 | \$ 0.2 |

In fiscal 2016, we entered into a \$2.7 billion fee-paid committed credit facility that was originally scheduled to expire in May 2021. In fiscal 2017, we amended the credit facility's expiration date by one year to May 2022.

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 May 28, 2017.

Long-Term Debt In March 2017, we issued €300.0 million principal amount of floating-rate notes due March 20, 2019. 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 repay a portion of our outstanding commercial paper.

In February 2017, we repaid \$1.0 billion of 5.7 percent fixed-rate notes.

In January 2017, we issued \$750.0 million principal amount of 3.2 percent fixed-rate notes due February 10, 2027. 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 repay a portion of our maturing long-term debt.

In January 2016, we issued €500.0 million principal amount of floating-rate notes due January 15, 2020. Interest on the notes are 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 repay a portion of our maturing long-term debt.

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

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

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

A summary of our long-term debt is as follows:

| In Millions | May 28, 2017 | May 29, 2016 |
|--|------------------|------------------|
| 5.65% notes due February 15, 2019 | \$1,150.0 | \$1,150.0 |
| 5.7% notes due February 15, 2017 | — | 1,000.0 |
| 3.15% notes due December 15, 2021 | 1,000.0 | 1,000.0 |
| 3.2% notes due February 10, 2027 | 750.0 | — |
| Euro-denominated 2.1% notes due November 16, 2020 | 559.2 | 555.8 |
| Euro-denominated 1.0% notes due April 27, 2023 | 559.2 | 555.8 |
| Euro-denominated floating-rate notes due January 15, 2020 | 559.2 | 555.8 |
| 1.4% notes due October 20, 2017 | 500.0 | 500.0 |
| 5.4% notes due June 15, 2040 | 500.0 | 500.0 |
| 4.15% notes due February 15, 2043 | 500.0 | 500.0 |
| 3.65% notes due February 15, 2024 | 500.0 | 500.0 |
| 2.2% notes due October 21, 2019 | 500.0 | 500.0 |
| Euro-denominated 1.5% notes due April 27, 2027 | 447.3 | 444.6 |
| Euro-denominated floating-rate notes due March 20, 2019 | 335.5 | — |
| Euro-denominated 2.2% notes due June 24, 2021 | 222.8 | 221.0 |
| Medium-term notes, 0.02% to 6.59%, due fiscal 2018 or later | 204.2 | 204.2 |
| Other, including debt issuance costs and capital leases | (39.8) | (26.1) |
| | 8,247.6 | 8,161.1 |
| Less amount due within one year | (604.7) | (1,103.4) |
| Total long-term debt | \$7,642.9 | \$7,057.7 |

Principal payments due on long-term debt in the next five years based on stated contractual maturities, our intent to redeem, or put rights of certain note holders are \$604.7 million in fiscal 2018, \$1,585.9 million in fiscal 2019, \$1,062.5 million in fiscal 2020, \$559.4 million in fiscal 2021, and \$1,001.1 million in fiscal 2022.

Certain of our long-term debt agreements contain restrictive covenants. As of May 28, 2017, we were in compliance with all of these covenants.

As of May 28, 2017, the \$23.0 million pre-tax loss recorded in AOCI associated with our previously designated interest rate swaps will be reclassified to net interest over the remaining lives of the hedged transactions. The amount expected to be reclassified from AOCI to net interest in fiscal 2018 is a \$6.7 million pre-tax loss.

NOTE 9. REDEEMABLE AND NONCONTROLLING INTERESTS

Our principal redeemable and noncontrolling interests relate to our Yoplait SAS, Yoplait Marques SNC, Liberté Marques Sàrl, and General Mills Cereals, LLC (GMC) subsidiaries. In addition, we have four foreign subsidiaries that have noncontrolling interests totaling \$8.5 million as of May 28, 2017.

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 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 May 28, 2017, the redemption value of the euro-denominated redeemable interest was \$910.9 million.

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.

We paid dividends of \$48.6 million in fiscal 2017, and \$74.5 million in fiscal 2016, to Sodiaal under the terms of the Yoplait SAS and Yoplait Marques SNC shareholder agreements.

A subsidiary of Yoplait SAS has entered into an exclusive milk supply agreement for its European operations with Sodiaal at market-determined prices through July 1, 2021. Net purchases totaled \$186.4 million for fiscal 2017 and \$321.0 million for fiscal 2016.

The holder of the 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, 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. The preferred return rate is adjusted every three years through a negotiated agreement with the Class A Interest holder or through a remarketing auction.

For financial reporting purposes, the assets, liabilities, results of operations, and cash flows of our non-wholly owned subsidiaries are included in our Consolidated Financial Statements. The third-party investor's share of the net earnings of these subsidiaries is reflected in net earnings attributable to redeemable and noncontrolling interests in our Consolidated Statements of Earnings.

Our noncontrolling interests contain restrictive covenants. As of May 28, 2017, we were in compliance with all of these covenants.

The following table provides details of total comprehensive income (loss):

| In Millions | Fiscal 2017 | | | | |
|--|---------------|---------|------------|--------------------------|----------------------|
| | General Mills | | Net | Noncontrolling Interests | Redeemable Interests |
| | Pretax | Tax | | Net | Net |
| Net earnings, including earnings attributable to redeemable and noncontrolling interests | | | \$ 1,657.5 | \$ 11.3 | \$ 32.3 |
| Other comprehensive income (loss): | | | | | |
| Foreign currency translation | \$ 19.5 | \$ — | 19.5 | 2.5 | (15.7) |
| Net actuarial income | 307.3 | (109.4) | 197.9 | — | — |
| Other fair value changes: | | | | | |
| Securities | 1.3 | (0.5) | 0.8 | — | — |
| Hedge derivatives | 65.9 | (16.1) | 49.8 | — | 3.5 |
| Reclassification to earnings: | | | | | |
| Hedge derivatives ^(a) | (25.2) | 2.4 | (22.8) | — | (2.9) |
| Amortization of losses and prior service costs ^(b) | 197.2 | (74.7) | 122.5 | — | — |
| Other comprehensive income (loss) | 566.0 | (198.3) | 367.7 | 2.5 | (15.1) |
| Total comprehensive income | | | \$ 2,025.2 | \$ 13.8 | \$ 17.2 |

(a) 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 SG&A expenses.

NOTE 10. STOCKHOLDERS' EQUITY

Cumulative preference stock of 5.0 million shares, without par value, is authorized but unissued.

On May 6, 2014, our Board of Directors authorized the repurchase of up to 100 million shares of our common stock. Purchases under the authorization 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 authorization has no specified termination date.

Share repurchases were as follows:

| In Millions | Fiscal Year | | |
|--------------------------|-------------|----------|-----------|
| | 2017 | 2016 | 2015 |
| Shares of common stock | 25.4 | 10.7 | 22.3 |
| Aggregate purchase price | \$1,651.5 | \$ 606.7 | \$1,161.9 |

| In Millions | Fiscal 2016 | | | | |
|--|---------------|--------|-------------------|--------------------------|----------------------|
| | General Mills | | | Noncontrolling Interests | Redeemable Interests |
| | Pretax | Tax | Net | Net | Net |
| Net earnings, including earnings attributable to redeemable and noncontrolling interests | | | \$ 1,697.4 | \$ 8.4 | \$ 31.0 |
| Other comprehensive income (loss): | | | | | |
| Foreign currency translation | \$ (107.6) | \$ — | (107.6) | 2.8 | (3.9) |
| Net actuarial loss | (514.2) | 188.3 | (325.9) | — | — |
| Other fair value changes: | | | | | |
| Securities | 0.2 | (0.1) | 0.1 | — | — |
| Hedge derivatives | 16.5 | (2.2) | 14.3 | — | 1.7 |
| Reclassification to earnings: | | | | | |
| Hedge derivatives ^(a) | (13.5) | 2.5 | (11.0) | — | 1.5 |
| Amortization of losses and prior service costs ^(b) | 206.8 | (78.2) | 128.6 | — | — |
| Other comprehensive income (loss) | (411.8) | 110.3 | (301.5) | 2.8 | (0.7) |
| Total comprehensive income | | | \$ 1,395.9 | \$ 11.2 | \$ 30.3 |

(a) 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 SG&A expense.

| In Millions | Fiscal 2015 | | | | |
|--|---------------|--------|-----------------|--------------------------|----------------------|
| | General Mills | | | Noncontrolling Interests | Redeemable Interests |
| | Pretax | Tax | Net | Net | Net |
| Net earnings, including earnings attributable to redeemable and noncontrolling interests | | | \$ 1,221.3 | \$ 8.2 | \$ 29.9 |
| Other comprehensive income (loss): | | | | | |
| Foreign currency translation | \$ (727.9) | \$ — | (727.9) | (78.2) | (151.8) |
| Net actuarial income | (561.1) | 202.7 | (358.4) | — | — |
| Other fair value changes: | | | | | |
| Securities | 1.3 | (0.5) | 0.8 | — | — |
| Hedge derivatives | 13.6 | (4.8) | 8.8 | — | (4.7) |
| Reclassification to earnings: | | | | | |
| Hedge derivatives ^(a) | 0.7 | 0.5 | 1.2 | — | 3.7 |
| Amortization of losses and prior service costs ^(b) | 170.2 | (65.1) | 105.1 | — | — |
| Other comprehensive loss | (1,103.2) | 132.8 | (970.4) | (78.2) | (152.8) |
| Total comprehensive income (loss) | | | \$ 250.9 | \$ (70.0) | \$ (122.9) |

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

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

In fiscal 2017, 2016, and 2015, except for reclassifications to earnings, changes in other comprehensive income (loss) were primarily non-cash items.

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

| In Millions | 2017 | 2016 |
|---|---------------------|---------------------|
| Foreign currency translation adjustments | \$ (624.7) | \$ (644.2) |
| Unrealized gain (loss) from: | | |
| Securities | 4.6 | 3.8 |
| Hedge derivatives | 1.5 | (25.5) |
| Pension, other postretirement, and postemployment benefits: | | |
| Net actuarial loss | (1,645.4) | (1,958.2) |
| Prior service credits | 19.5 | 11.9 |
| Accumulated other comprehensive loss | \$ (2,244.5) | \$ (2,612.2) |

NOTE 11. STOCK PLANS

We use broad-based stock plans to help ensure that management's interests are aligned with those of our shareholders. As of May 28, 2017, a total of 20.3 million shares were available for grant in the form of stock options, restricted stock, restricted stock units, and shares of unrestricted stock under the 2011 Stock Compensation Plan (2011 Plan) and the 2016 Compensation Plan for Non-Employee Directors. The 2011 Plan also provides for the issuance of cash-settled share-based units, stock appreciation rights, and performance-based stock awards. Stock-based awards now outstanding include some granted under the 2005, 2006, 2007 and 2009 stock plans and the 2011 compensation plan for non-employee directors, under which no further awards may be granted. The stock plans provide for potential accelerated vesting of awards upon retirement, termination, or death of eligible employees and directors.

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

| | Fiscal Year | | |
|--|-------------|-----------|-----------|
| | 2017 | 2016 | 2015 |
| Estimated fair values of stock options granted | \$8.80 | \$7.24 | \$7.22 |
| Assumptions: | | | |
| Risk-free interest rate | 1.7% | 2.4% | 2.6% |
| Expected term | 8.5 years | 8.5 years | 8.5 years |
| Expected volatility | 17.8% | 17.6% | 17.5% |
| Dividend yield | 2.9% | 3.2% | 3.1% |

We estimate the fair value of each option on the grant date using a Black-Scholes option-pricing model, which requires us to make predictive assumptions regarding future stock price volatility, employee exercise behavior, dividend yield, and the forfeiture rate. 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 expected term represents the period of time that options granted are expected to be outstanding based on historical data to estimate option exercises and employee terminations within the valuation model. Separate groups of employees have similar historical exercise behavior and therefore were aggregated into a single pool for valuation purposes. The weighted-average expected term for all employee groups is presented in the table above. The risk-free interest rate for periods during the expected term of the options is based on the U.S. Treasury zero-coupon yield curve in effect at the time of grant.

Any corporate income tax benefit realized upon exercise or vesting of an award in excess of that previously recognized in earnings (referred to as a windfall tax benefit) is presented in our Consolidated Statements of Cash Flows as a financing cash flow.

Realized windfall tax benefits are credited to additional paid-in capital within our Consolidated Balance Sheets. Realized shortfall tax benefits (amounts which are less than that previously recognized in earnings)

are first offset against the cumulative balance of windfall tax benefits, if any, and then charged directly to income tax expense, potentially resulting in volatility in our consolidated effective income tax rate. We calculated a cumulative memo balance of windfall tax benefits for the purpose of accounting for future shortfall tax benefits.

Options may be priced at 100 percent or more of the fair market value on the date of grant, and generally vest four years after the date of grant. Options generally expire within 10 years and one month after the date of grant.

Information on stock option activity follows:

| | Options Exercisable (Thousands) | Weighted- Average Exercise Price Per Share | Options Outstanding (Thousands) | Weighted- Average Exercise Price Per Share |
|----------------------|---------------------------------------|--|---------------------------------------|--|
| Balance as of | | | | |
| May 25, 2014 | 29,452.8 | \$28.37 | 44,169.0 | \$32.10 |
| Granted | | | 2,253.1 | 53.70 |
| Exercised | | | (7,297.2) | 26.68 |
| Forfeited or expired | | | (47.7) | 43.73 |
| Balance as of | | | | |
| May 31, 2015 | 26,991.5 | \$30.44 | 39,077.2 | \$34.35 |
| Granted | | | 1,930.2 | 55.72 |
| Exercised | | | (8,471.0) | 28.49 |
| Forfeited or expired | | | (134.8) | 48.16 |
| Balance as of | | | | |
| May 29, 2016 | 22,385.1 | \$32.38 | 32,401.6 | \$37.09 |
| Granted | | | 2,446.0 | 66.52 |
| Exercised | | | (4,904.9) | 30.76 |
| Forfeited or expired | | | (108.3) | 57.52 |
| Balance as of | | | | |
| May 28, 2017 | 20,899.2 | \$33.83 | 29,834.4 | \$40.47 |

Stock-based compensation expense related to stock option awards was \$18.0 million in fiscal 2017, \$14.8 million in fiscal 2016, and \$18.1 million in fiscal 2015. Compensation expense related to stock-based payments recognized in our Consolidated Statements of Earnings includes amounts recognized in restructuring, impairment, and other exit costs for fiscal 2017, 2016 and 2015.

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

| In Millions | Fiscal Year | | |
|---|-------------|---------|---------|
| | 2017 | 2016 | 2015 |
| Net cash proceeds | \$112.6 | \$171.9 | \$163.7 |
| Intrinsic value of options exercised | \$176.5 | \$268.4 | \$201.9 |

Restricted Stock, Restricted Stock Units, and Performance Share Units Stock and units settled in stock subject to a restricted period and a purchase price, if any (as determined by the Compensation Committee of the Board of Directors), may be granted to key employees under the 2011 Plan. Restricted stock and restricted stock units generally vest and become unrestricted four years after the date of grant. Performance share units are earned based on our future achievement of three-year goals for average organic net sales growth and cumulative free cash flow. Performance share units are settled in common stock and are generally subject to a three year performance and vesting period. The sale or transfer of these awards is restricted during the vesting period. Participants holding restricted stock, but not restricted stock units or performance share units, are entitled to vote on matters submitted to holders of common stock for a vote. These awards accumulate dividends from the date of grant, but participants only receive payment if the awards vest.

Information on restricted stock unit and performance share units 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 29, 2016 | 5,100.4 | \$48.60 | 211.4 | \$48.37 |
| Granted | 1,418.7 | 67.02 | 43.6 | 66.75 |
| Vested | (1,710.3) | 42.50 | (119.8) | 41.21 |
| Forfeited, expired, or reclassified | (317.6) | 57.96 | (11.9) | 57.76 |
| Non-vested as of May 28, 2017 | 4,491.2 | \$56.08 | 123.3 | \$56.93 |

| | Fiscal Year | | |
|-------------------------------------|-------------|---------|---------|
| | 2017 | 2016 | 2015 |
| Number of units granted (thousands) | 1,462.3 | 1,351.5 | 1,708.2 |
| Weighted average price per unit | \$67.01 | \$56.00 | \$53.45 |

The total grant-date fair value of restricted stock unit awards that vested was \$78.1 million in fiscal 2017 and \$101.8 million in fiscal 2016.

As of May 28, 2017, unrecognized compensation expense related to non-vested stock options, restricted stock units, and performance share units was \$98.1 million. This expense will be recognized over 18 months, on average.

Stock-based compensation expense related to restricted stock units and performance share units was \$77.9 million for fiscal 2017, \$76.8 million for fiscal 2016, and \$96.6 million for fiscal 2015. Compensation expense related to stock-based payments recognized in our Consolidated Statements of Earnings includes amounts recognized in restructuring, impairment, and other exit costs for fiscal 2017, 2016 and 2015.

NOTE 12. EARNINGS PER SHARE

Basic and diluted EPS were calculated using the following:

| In Millions, Except per Share Data | Fiscal Year | | |
|--|-------------|-----------|-----------|
| | 2017 | 2016 | 2015 |
| Net earnings attributable to | | | |
| General Mills | \$1,657.5 | \$1,697.4 | \$1,221.3 |
| Average number of common shares - basic EPS | 587.1 | 598.9 | 603.3 |
| Incremental share effect from: ^(a) | | | |
| Stock options | 8.1 | 9.8 | 11.3 |
| Restricted stock units, performance share units, and other | 2.8 | 3.2 | 4.2 |
| Average number of common shares - diluted EPS | 598.0 | 611.9 | 618.8 |
| Earnings per share - basic | \$ 2.82 | \$ 2.83 | \$ 2.02 |
| Earnings per share - diluted | \$ 2.77 | \$ 2.77 | \$ 1.97 |

(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 | Fiscal Year | | |
|--|-------------|------|------|
| | 2017 | 2016 | 2015 |
| Anti-dilutive stock options, restricted stock units, and performance share units | 2.3 | 1.1 | 2.1 |

NOTE 13. RETIREMENT BENEFITS AND POSTEMPLOYMENT BENEFITS

Defined Benefit Pension Plans We have defined benefit pension plans covering many employees in the United States, Canada, France, and the United Kingdom. Benefits for salaried employees are based on length of service and final average compensation. Benefits for hourly employees include various monthly amounts for each year of credited service. Our funding policy is consistent with the requirements of applicable laws. We made no voluntary contributions to our principal U.S. plans in fiscal 2017, 2016, and 2015. We do not expect to be required to make any contributions in fiscal 2018. Our principal domestic retirement plan covering salaried employees has a provision that any excess pension assets would be allocated to active participants if the plan is terminated within five years of a change in control. All salaried employees hired on or after June 1, 2013 are eligible for a retirement program that does not include a defined benefit pension plan.

In May 2017, we announced changes to the United States pension plans. The Company will freeze the pay and service amounts used to calculate pension benefits for active employees who participate in the United States pension plans as of December 31, 2027. Beginning January 1, 2028, active employees in the United States will not accrue additional benefits for future service and eligible compensation received under these plans. These changes resulted in a \$130.9 million decline in the projected benefit obligation as of May 28, 2017, due to the decrease in expected future pensionable compensation.

Other Postretirement Benefit Plans We also sponsor plans that provide health care benefits to many of our retirees in the United States, Canada, and Brazil. The United States salaried health care benefit plan is contributory, with retiree contributions based on years of service. We make decisions to fund related trusts for certain employees and retirees on an annual basis. We made voluntary contributions to these plans of \$20.0 million in fiscal 2017 and \$24.0 million in fiscal 2016.

Health Care Cost Trend Rates Assumed health care cost trends are as follows:

| | Fiscal Year | |
|---|---------------|---------------|
| | 2017 | 2016 |
| Health care cost trend rate for next year | 7.0% and 7.3% | 7.3% and 7.5% |
| Rate to which the cost trend rate is assumed to decline (ultimate rate) | 5.0% | 5.0% |
| Year that the rate reaches the ultimate trend rate | 2024 | 2024 |

We review our health care cost trend rates annually. Our review is based on data we collect about our health care claims experience and information provided by our actuaries. This information includes recent plan experience, plan design, overall industry experience and projections, and assumptions used by other similar organizations. Our initial health care cost trend rate is adjusted as necessary to remain consistent with this review, recent experiences, and short-term expectations. Our initial health care cost trend rate assumption is 7.3 percent for retirees age 65 and over and 7.0 percent for retirees under age 65 at the end of fiscal 2017. Rates are graded down annually until the ultimate trend rate of 5.0 percent is reached in 2024 for all retirees. The trend rates are applicable for calculations only if the retirees' benefits increase as a result of health care inflation. The ultimate trend rate is adjusted annually, as necessary, to approximate the current economic view on the rate of long-term inflation plus an appropriate health care cost premium. Assumed trend rates for health care costs have an important effect on the amounts reported for the other postretirement benefit plans.

A one percentage point change in the health care cost trend rate would have the following effects:

| In Millions | One Percentage Point Increase | One Percentage Point Decrease |
|--|-------------------------------|-------------------------------|
| Effect on the aggregate of the service and interest cost components in fiscal 2018 | \$ 2.2 | \$ (1.9) |
| Effect on the other postretirement accumulated benefit obligation as of May 28, 2017 | 59.5 | (53.8) |

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the Act) was signed into law in March 2010. The Act codifies health

care reforms with staggered effective dates from 2010 to 2018. Estimates of the future impacts of several of the Act's provisions are incorporated into our postretirement benefit liability.

Postemployment Benefit Plans Under certain circumstances, we also provide accruable benefits, primarily severance, to former or inactive employees in the United States, Canada, and Mexico. We recognize an obligation for any of these benefits that vest or accumulate with service. Postemployment benefits that do not vest or accumulate with service (such as severance based solely on annual pay rather than years of service)

are charged to expense when incurred. Our postemployment benefit plans are unfunded.

In the first quarter of fiscal 2017, we adopted new accounting requirements which permit reporting entities with a fiscal year-end that does not coincide with a month-end to apply a practical expedient to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply such practical expedient consistently to all plans. We measured the plan assets and obligations for our defined benefit pension, other postretirement benefit, and postemployment benefit plans as of May 31, 2017.

Summarized financial information about defined benefit pension, other postretirement benefit, and postemployment benefit plans is presented below:

| In Millions | Defined Benefit Pension Plans | | Other Postretirement Benefit Plans | | Postemployment Benefit Plans | |
|--|-------------------------------|------------|------------------------------------|------------|------------------------------|------------|
| | Fiscal Year | | Fiscal Year | | Fiscal Year | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Change in Plan Assets: | | | | | | |
| Fair value at beginning of year | \$5,539.9 | \$5,758.5 | \$ 602.4 | \$ 582.8 | | |
| Actual return on assets | 645.6 | 36.3 | 75.2 | (0.1) | | |
| Employer contributions | 25.4 | 23.7 | 20.1 | 24.1 | | |
| Plan participant contributions | 8.8 | 5.7 | 15.2 | 14.1 | | |
| Benefits payments | (282.2) | (277.5) | (18.1) | (18.5) | | |
| Foreign currency | (12.3) | (6.8) | — | — | | |
| Fair value at end of year | \$5,925.2 | \$5,539.9 | \$ 694.8 | \$ 602.4 | | |
| Change in Projected Benefit Obligation: | | | | | | |
| Benefit obligation at beginning of year | \$6,448.5 | \$6,252.1 | \$ 1,028.9 | \$ 1,079.6 | \$ 164.1 | \$ 146.6 |
| Service cost | 119.7 | 134.6 | 12.5 | 19.0 | 8.8 | 7.6 |
| Interest cost | 216.5 | 267.8 | 32.2 | 44.1 | 2.6 | 3.9 |
| Plan amendment | (130.9) | 0.9 | — | — | — | 1.1 |
| Curtailment/other | 1.9 | 7.1 | (0.3) | 0.5 | 1.3 | 10.7 |
| Plan participant contributions | 8.8 | 5.7 | 15.2 | 14.1 | — | — |
| Medicare Part D reimbursements | — | — | 3.4 | 3.5 | — | — |
| Actuarial loss (gain) | 88.5 | 65.2 | (77.6) | (64.5) | (7.4) | 11.2 |
| Benefits payments | (282.6) | (278.0) | (63.3) | (66.4) | (34.7) | (16.9) |
| Foreign currency | (11.8) | (6.9) | 0.4 | (1.0) | (0.2) | (0.1) |
| Projected benefit obligation at end of year | \$6,458.6 | \$6,448.5 | \$ 951.4 | \$ 1,028.9 | \$ 134.5 | \$ 164.1 |
| Plan assets less than benefit obligation as of fiscal year end | | | | | | |
| | \$ (533.4) | \$ (908.6) | \$ (256.6) | \$ (426.5) | \$ (134.5) | \$ (164.1) |

The accumulated benefit obligation for all defined benefit pension plans was \$6,104.5 million as of May 28, 2017, and \$5,950.7 million as of May 29, 2016.

Amounts recognized in AOCI as of May 28, 2017 and May 29, 2016, are as follows:

| In Millions | Defined Benefit Pension Plans | | Other Postretirement Benefit Plans | | Postemployment Benefit Plans | | Total | |
|--|-------------------------------|-------------|------------------------------------|----------|------------------------------|----------|-------------|-------------|
| | Fiscal Year | | Fiscal Year | | Fiscal Year | | Fiscal Year | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Net actuarial loss | \$(1,621.4) | \$(1,886.0) | \$(14.5) | \$(57.6) | \$ (9.5) | \$(14.6) | \$(1,645.4) | \$(1,958.2) |
| Prior service (costs) credits | (3.9) | (6.8) | 22.8 | 19.9 | 0.6 | (1.2) | 19.5 | 11.9 |
| Amounts recorded in accumulated other comprehensive loss | \$(1,625.3) | \$(1,892.8) | \$ 8.3 | \$(37.7) | \$ (8.9) | \$(15.8) | \$(1,625.9) | \$(1,946.3) |

Plans with accumulated benefit obligations in excess of plan assets are as follows:

| In Millions | Defined Benefit Pension Plans | | Other Postretirement Benefit Plans | | Postemployment Benefit Plans | |
|--------------------------------|-------------------------------|-----------|------------------------------------|---------|------------------------------|--------|
| | Fiscal Year | | Fiscal Year | | Fiscal Year | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Projected benefit obligation | \$610.1 | \$5,490.3 | \$ 5.5 | \$ — | \$ 4.4 | \$ 4.8 |
| Accumulated benefit obligation | 542.3 | 4,998.3 | 947.9 | 1,024.7 | 130.1 | 159.3 |
| Plan assets at fair value | 51.9 | 4,498.5 | 694.8 | 602.4 | — | — |

Components of net periodic benefit expense are as follows:

| In Millions | Defined Benefit Pension Plans | | | Other Postretirement Benefit Plans | | | Postemployment Benefit Plans | | |
|---|-------------------------------|----------|----------|------------------------------------|---------|---------|------------------------------|---------|---------|
| | Fiscal Year | | | Fiscal Year | | | Fiscal Year | | |
| | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| Service cost | \$ 119.7 | \$ 134.6 | \$ 137.0 | \$ 12.5 | \$ 19.0 | \$ 22.4 | \$ 8.8 | \$ 7.6 | \$ 7.5 |
| Interest cost | 216.5 | 267.8 | 249.2 | 32.2 | 44.1 | 46.9 | 2.6 | 3.9 | 4.3 |
| Expected return on plan assets | (486.7) | (496.9) | (476.4) | (48.5) | (46.2) | (40.2) | — | — | — |
| Amortization of losses | 190.2 | 189.8 | 141.7 | 2.5 | 6.6 | 4.9 | 1.7 | 0.7 | 0.7 |
| Amortization of prior service costs (credits) | 2.5 | 4.7 | 7.4 | (5.4) | (5.4) | (1.6) | 0.6 | 2.5 | 2.4 |
| Other adjustments | 3.1 | 5.0 | 15.1 | 1.3 | 2.3 | 3.3 | 1.3 | 10.7 | 9.5 |
| Settlement or curtailment | 3.8 | 13.1 | 18.0 | (0.9) | (1.0) | 1.3 | (1.4) | — | — |
| Net expense | \$ 49.1 | \$ 118.1 | \$ 92.0 | \$ (6.3) | \$ 19.4 | \$ 37.0 | \$ 13.6 | \$ 25.4 | \$ 24.4 |

We expect to recognize the following amounts in net periodic benefit expense in fiscal 2018:

| In Millions | Defined Benefit Pension Plans | Other Postretirement Benefit Plans | Postemployment Benefit Plans |
|---|-------------------------------|------------------------------------|------------------------------|
| Amortization of losses | \$176.9 | \$0.8 | \$0.6 |
| Amortization of prior service costs (credits) | 1.9 | (5.4) | 0.8 |

Assumptions Weighted-average assumptions used to determine fiscal year-end benefit obligations are as follows:

| | Defined Benefit Pension Plans | | Other Postretirement Benefit Plans | | Postemployment Benefit Plans | |
|--------------------------|-------------------------------|-------|------------------------------------|-------|------------------------------|-------|
| | Fiscal Year | | Fiscal Year | | Fiscal Year | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Discount rate | 4.08% | 4.19% | 3.92% | 3.97% | 2.87% | 2.94% |
| Rate of salary increases | 4.25 | 4.28 | — | — | 4.46 | 4.35 |

Weighted-average assumptions used to determine fiscal year net periodic benefit expense are as follows:

| | Defined Benefit Pension Plans | | | Other Postretirement Benefit Plans | | | Postemployment Benefit Plans | | |
|--|-------------------------------|-------|-------|------------------------------------|-------|-------|------------------------------|-------|-------|
| | Fiscal Year | | | Fiscal Year | | | Fiscal Year | | |
| | 2017 ^(a) | 2016 | 2015 | 2017 ^(a) | 2016 | 2015 | 2017 ^(a) | 2016 | 2015 |
| Discount rate | 4.19% | 4.38% | 4.54% | 3.97% | 4.20% | 4.51% | 2.94% | 3.55% | 3.82% |
| Service cost effective rate | 4.57 | — | — | 4.42 | — | — | 3.55 | — | — |
| Interest cost effective rate | 3.44 | — | — | 3.17 | — | — | 2.67 | — | — |
| Rate of salary increases | 4.28 | 4.31 | 4.44 | — | — | — | 4.35 | 4.36 | 4.44 |
| Expected long-term rate of return on plan assets | 8.17 | 8.53 | 8.53 | 7.85 | 8.14 | 8.13 | — | — | — |

(a) Beginning in fiscal 2017, we adopted the full yield curve method.

Discount Rates Beginning in fiscal 2017, we changed the method used to estimate the service and interest cost components of the net periodic benefit expense for our United States and most of our international defined benefit pension, other postretirement benefit, and postemployment benefit plans. We adopted a full yield curve approach to estimate service cost and interest cost by applying the specific spot rates along the yield curve used to determine the benefit obligation to the relevant projected cash flows. This method provides a more precise measurement of service and interest costs by correlating the timing of the plans' liability cash flows to the corresponding rate on the yield curve. Previously, we estimated service cost and interest cost using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. This change does not affect the measurement of our benefit obligations related to these plans. We have accounted for this change prospectively as a change in accounting estimate beginning in the first quarter of fiscal 2017. The change in methodology resulted in a decrease in service and interest cost of approximately \$68 million for fiscal 2017 compared to our previous methodology. The fiscal 2017 reduction in our net periodic benefit expense as a result of this change in methodology was

partially offset by a reduction in our weighted-average expected rate of return on plan assets for our principal defined benefit pension and other postretirement plans in the United States to 8.25 percent as a result of changes that decreased investment risk in the portfolio.

Beginning in fiscal 2017, our discount rate assumptions are determined annually as of May 31 for our defined benefit pension, other postretirement benefit, and postemployment benefit plan obligations. We also use discount rates as of May 31 to determine defined benefit pension, other postretirement benefit, and postemployment benefit plan income and expense for the following fiscal year. We work with our outside actuaries to determine the timing and amount of expected future cash outflows to plan participants and, using the Aa Above Median corporate bond yield, to develop a forward interest rate curve, including a margin to that index based on our credit risk. This forward interest rate curve is applied to our expected future cash outflows to determine our discount rate assumptions.

Fair Value of Plan Assets The fair values of our pension and postretirement benefit plans' assets and their respective levels in the fair value hierarchy at May 28, 2017, and May 29, 2016, by asset category were as follows:

| In Millions | May 28, 2017 | | | | May 29, 2016 | | | |
|--|--------------|------------|---------|--------------|--------------|------------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | Total Assets | Level 1 | Level 2 | Level 3 | Total Assets |
| Fair value measurement of pension plan assets: | | | | | | | | |
| Equity ^(a) | \$ 1,773.0 | \$ 781.2 | \$ — | \$ 2,554.2 | \$ 1,543.7 | \$ 741.9 | \$ — | \$ 2,285.6 |
| Fixed income ^(b) | 951.9 | 742.2 | — | 1,694.1 | 903.8 | 745.8 | — | 1,649.6 |
| Real asset investments ^(c) | 253.1 | 95.8 | — | 348.9 | 193.6 | 95.2 | — | 288.8 |
| Other investments ^(d) | — | — | 0.3 | 0.3 | — | — | 0.4 | 0.4 |
| Cash and accruals | 174.2 | — | — | 174.2 | 195.1 | — | — | 195.1 |
| Fair value measurement of pension plan assets in the fair value hierarchy | | | | | | | | |
| | \$ 3,152.2 | \$ 1,619.2 | \$ 0.3 | \$ 4,771.7 | \$ 2,836.2 | \$ 1,582.9 | \$ 0.4 | \$ 4,419.5 |
| Investments measured at net asset value ^(e) | | | | | | | | |
| | | | | 1,153.5 | | | | 1,120.4 |
| Total pension plan investments | | | | \$ 5,925.2 | \$ 5,539.9 | | | |
| Fair value measurement of postretirement benefit plan assets: | | | | | | | | |
| Equity ^(a) | \$ 122.3 | \$ 67.5 | \$ — | \$ 189.8 | \$ 128.9 | \$ 87.6 | \$ — | \$ 216.5 |
| Fixed income ^(b) | 34.1 | 160.0 | — | 194.1 | 18.0 | 83.4 | — | 101.4 |
| Real asset investments ^(c) | 18.0 | 14.5 | — | 32.5 | — | 14.3 | — | 14.3 |
| Other investments ^(d) | — | — | — | — | — | — | — | — |
| Cash and accruals | 11.3 | — | — | 11.3 | 8.9 | — | — | 8.9 |
| Fair value measurement of postretirement benefit plan assets in the fair value hierarchy | | | | | | | | |
| | \$ 185.7 | \$ 242.0 | \$ — | \$ 427.7 | \$ 155.8 | \$ 185.3 | \$ — | \$ 341.1 |
| Investments measured at net asset value ^(e) | | | | | | | | |
| | | | | 267.1 | | | | 261.3 |
| Total postretirement benefit plan investments | | | | \$ 694.8 | \$ 602.4 | | | |

(a) Primarily publicly traded common stock for purposes of total return and to maintain equity exposure consistent with policy allocations. Investments include: United States and international equity securities, mutual funds, and equity futures valued at closing prices from national exchanges; and commingled funds valued at unit values provided by the investment managers, which are based on the fair value of the underlying investments.

(b) Primarily government and corporate debt securities and futures for purposes of total return, managing fixed income exposure to policy allocations, and managing duration targets. Investments include: fixed income securities and bond futures generally valued at closing prices from national exchanges, fixed income pricing models, and independent financial analysts; and fixed income commingled funds valued at unit values provided by the investment managers, which are based on the fair value of the underlying investments.

(c) Publicly traded common stock and limited partnerships in the energy and real estate sectors for purposes of total return. Investments include: energy and real estate securities generally valued at closing prices from national exchanges; and commingled funds valued at unit values provided by the investment managers, which are based on the fair value of the underlying investments.

(d) Global balanced fund of equity, fixed income, and real estate securities for purposes of meeting Canadian pension plan asset allocation policies, and insurance and annuity contracts to provide a stable stream of income for retirees and to fund postretirement medical benefits. Fair values are derived from unit values provided by the investment managers, which are generally based on the fair value of the underlying investments and contract fair values from the providers.

(e) Primarily private investments and common collective trusts that are measured at fair value using the net asset value per share (or its equivalent) practical expedient and have not been classified in the fair value hierarchy.

There were no material changes in our level 3 investments in fiscal 2017 and fiscal 2016.

Expected Rate of Return on Plan Assets Our expected rate of return on plan assets is determined by our asset allocation, our historical long-term investment performance, our estimate of future long-term returns by asset class (using input from our actuaries, investment services, and investment managers), and long-term inflation assumptions. We review this assumption annually for each plan; however, our annual investment performance for one particular year does not, by itself, significantly influence our evaluation.

Weighted-average asset allocations for the past two fiscal years for our defined benefit pension and other postretirement benefit plans are as follows:

| Asset category: | Defined Benefit Pension Plans | | Other Postretirement Benefit Plans | |
|------------------------|-------------------------------|--------|------------------------------------|--------|
| | Fiscal Year | | Fiscal Year | |
| | 2017 | 2016 | 2017 | 2016 |
| United States equities | 28.5% | 30.5% | 31.9% | 37.2% |
| International equities | 17.9 | 19.0 | 17.8 | 23.4 |
| Private equities | 7.8 | 8.3 | 3.6 | 3.9 |
| Fixed income | 31.7 | 28.6 | 40.0 | 29.4 |
| Real assets | 14.1 | 13.6 | 6.7 | 6.1 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

The investment objective for our defined benefit pension and other postretirement benefit plans is to secure the benefit obligations to participants at a reasonable cost to us. Our goal is to optimize the long-term return on plan assets at a moderate level of risk. The defined benefit pension plan and other postretirement benefit plan portfolios are broadly diversified across asset classes. Within asset classes, the portfolios are further diversified across investment styles and investment organizations. For the defined benefit pension plans, the long-term investment policy allocation is: 20 percent to equities in the United States; 15 percent to international equities; 10 percent to private equities; 40 percent to fixed income; and 15 percent to real assets (real estate, energy, and timber). For other postretirement benefit plans, the long-term investment policy allocations are: 30 percent to equities in the United States; 15 percent to international equities; 10 percent to private equities; 40 percent to fixed income; and 5 percent to real assets (real estate, energy, and timber). The actual allocations to these asset classes may vary tactically around the long-term policy allocations based on relative market valuations.

Contributions and Future Benefit Payments We do not expect to be required to make contributions to our defined benefit pension, other postretirement benefit, and postemployment benefit plans in fiscal 2018. Actual fiscal 2018 contributions could exceed our current projections, as influenced by our decision to undertake discretionary funding of our benefit trusts and future changes in regulatory requirements. Estimated benefit payments, which reflect expected future service, as appropriate, are expected to be paid from fiscal 2018 to 2027 as follows:

| In Millions | Defined Benefit Pension Plans | Other Postretirement Benefit Plans Gross Payments | Medicare Subsidy Receipts | Postemployment Benefit Plans |
|-------------|-------------------------------|---|---------------------------|------------------------------|
| 2018 | \$ 290.2 | \$ 59.5 | \$ 4.3 | \$ 21.2 |
| 2019 | 298.6 | 61.6 | 4.6 | 19.0 |
| 2020 | 307.7 | 63.0 | 4.2 | 17.4 |
| 2021 | 316.4 | 64.1 | 3.5 | 16.1 |
| 2022 | 325.7 | 64.8 | 3.6 | 15.0 |
| 2023-2027 | 1,767.8 | 328.8 | 18.8 | 61.5 |

Defined Contribution Plans The General Mills Savings Plan is a defined contribution plan that covers domestic salaried, hourly, nonunion, and certain union employees. This plan is a 401(k) savings plan that includes a number of investment funds, including a Company stock fund and an Employee Stock Ownership Plan (ESOP). We sponsor another money purchase plan for certain domestic hourly employees with net assets of \$23.0 million as of May 28, 2017, and \$21.0 million as of May 29, 2016. We also sponsor defined contribution plans in many of our foreign locations. Our total recognized expense related to defined contribution plans was \$54.1 million in fiscal 2017, \$61.2 million in fiscal 2016, and \$44.0 million in fiscal 2015.

We match a percentage of employee contributions to the General Mills Savings Plan. The Company match is directed to investment options of the participant's choosing. The number of shares of our common stock allocated to participants in the ESOP was 6.3 million as of May 28, 2017, and 6.9 million as of May 29, 2016. The ESOP's only assets are our common stock and temporary cash balances.

The Company stock fund and the ESOP collectively held \$598.7 million and \$711.5 million of Company common stock as of May 28, 2017 and May 29, 2016, respectively.

NOTE 14. INCOME TAXES

The components of earnings before income taxes and after-tax earnings from joint ventures and the corresponding income taxes thereon are as follows:

| In Millions | Fiscal Year | | |
|---|-------------|-----------|-----------|
| | 2017 | 2016 | 2015 |
| Earnings before income taxes and after-tax earnings from joint ventures: | | | |
| United States | \$1,941.6 | \$1,941.4 | \$1,338.6 |
| Foreign | 329.7 | 462.2 | 423.3 |
| Total earnings before income taxes and after-tax earnings from joint ventures | \$2,271.3 | \$2,403.6 | \$1,761.9 |
| Income taxes: | | | |
| Currently payable: | | | |
| Federal | \$ 368.5 | \$ 489.8 | \$ 392.7 |
| State and local | 21.1 | 30.8 | 29.3 |
| Foreign | 81.7 | 114.0 | 139.5 |
| Total current | 471.3 | 634.6 | 561.5 |
| Deferred: | | | |
| Federal | 201.3 | 123.0 | 70.3 |
| State and local | 10.2 | (6.9) | (8.7) |
| Foreign | (27.6) | 4.5 | (36.3) |
| Total deferred | 183.9 | 120.6 | 25.3 |
| Total income taxes | \$ 655.2 | \$ 755.2 | \$ 586.8 |

The following table reconciles the United States statutory income tax rate with our effective income tax rate:

| | Fiscal Year | | |
|---|-------------|-------|-------|
| | 2017 | 2016 | 2015 |
| United States statutory rate | 35.0% | 35.0% | 35.0% |
| State and local income taxes, net of federal tax benefits | 0.8 | 0.7 | 0.7 |
| Foreign rate differences | (3.5) | (2.2) | (3.1) |
| Repatriation of foreign earnings | — | — | 4.5 |
| Non-deductible goodwill | — | 2.6 | — |
| Domestic manufacturing deduction | (2.8) | (2.0) | (2.9) |
| Other, net ^(a) | (0.7) | (2.7) | (0.9) |
| Effective income tax rate | 28.8% | 31.4% | 33.3% |

(a) Fiscal 2016 includes 0.6 percent tax benefit related to the divestiture of our business in Venezuela. See Note 3 for additional information.

The tax effects of temporary differences that give rise to deferred tax assets and liabilities are as follows:

| In Millions | May 28, 2017 | May 29, 2016 |
|---|--------------|--------------|
| Accrued liabilities | \$ 70.0 | \$ 89.9 |
| Compensation and employee benefits | 419.2 | 491.5 |
| Pension | 196.3 | 322.0 |
| Tax credit carryforwards | 18.4 | 4.5 |
| Stock, partnership, and miscellaneous investments | 276.4 | 353.6 |
| Capital losses | 29.8 | 14.5 |
| Net operating losses | 109.5 | 97.9 |
| Other | 85.6 | 84.1 |
| Gross deferred tax assets | 1,205.2 | 1,458.0 |
| Valuation allowance | 231.8 | 227.0 |
| Net deferred tax assets | 973.4 | 1,231.0 |
| Brands | 1,310.1 | 1,311.7 |
| Fixed assets | 484.5 | 476.3 |
| Intangible assets | 238.6 | 221.8 |
| Tax lease transactions | 45.8 | 48.0 |
| Inventories | 60.0 | 53.0 |
| Stock, partnership, and miscellaneous investments | 479.4 | 476.0 |
| Unrealized hedges | 45.4 | 22.6 |
| Other | 29.0 | 21.2 |
| Gross deferred tax liabilities | 2,692.8 | 2,630.6 |
| Net deferred tax liability | \$ 1,719.4 | \$ 1,399.6 |

We have established a valuation allowance against certain of the categories of deferred tax assets described above as current evidence does not suggest we will realize sufficient taxable income of the appropriate character (e.g., ordinary income versus capital gain income) within the carryforward period to allow us to realize these deferred tax benefits.

Of the total valuation allowance of \$231.8 million, the majority relates to a deferred tax asset for losses recorded as part of the Pillsbury acquisition in the amount of \$167.2 million, \$53.3 million relates to various state and foreign loss carryforwards, and \$11.1 million relates to various foreign capital loss carryforwards. As of May 28, 2017, we believe it is more-likely-than-not that the remainder of our deferred tax assets are realizable.

We have \$142.1 million of tax loss carryforwards. Of this amount, \$125.3 million is foreign loss carryforwards. The carryforward periods are as follows: \$93.2 million do not expire; \$3.7 million expire in fiscal 2018 and 2019; and \$28.4 million expire in fiscal 2020 and beyond. The remaining \$16.8 million are state operating

loss carryforwards, the majority of which expire after fiscal 2023.

We have not recognized a deferred tax liability for unremitted earnings of approximately \$2.3 billion from our foreign operations because our subsidiaries have invested or will invest the undistributed earnings indefinitely, or the earnings will be remitted in a tax-neutral transaction. It is not practicable for us to determine the amount of unrecognized deferred tax liabilities on these indefinitely reinvested earnings. Deferred taxes are recorded for earnings of our foreign operations when we determine that such earnings are no longer indefinitely reinvested. In fiscal 2015, we approved a one-time repatriation of \$606.1 million of historical foreign earnings to reduce the economic cost of funding restructuring initiatives and the acquisition of Annie's. We recorded a discrete tax charge of \$78.6 million in fiscal 2015 related to this action. We have previously asserted that our historical foreign earnings are permanently reinvested and will only be repatriated in a tax-neutral manner, and this one-time repatriation does not change this on-going assertion.

We are subject to federal income taxes in the United States as well as various state, local, and foreign jurisdictions. A number of years may elapse before an uncertain tax position is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our liabilities for income taxes reflect the most likely outcome. We adjust these liabilities, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular position would usually require the use of cash.

The number of years with open tax audits varies depending on the tax jurisdiction. Our major taxing jurisdictions include the United States (federal and state) and Canada. Various tax examinations by United States state taxing authorities could be conducted for any open tax year, which vary by jurisdiction, but are generally from 3 to 5 years.

Several state and foreign examinations are currently in progress. We do not expect these examinations to result in a material impact on our results of operations or financial position.

During fiscal 2017, the Internal Revenue Service (IRS) concluded its field examination of our federal tax returns for fiscal 2013 and 2014. The audit closure and related adjustments did not have a material impact on

our results of operations or financial position. As of May 28, 2017, we have effectively settled all issues with the IRS for fiscal years 2014 and prior.

During fiscal 2017, the Brazilian tax authority, Secretaria da Receita Federal do Brasil (RFB), concluded audits of our 2012 and 2013 tax return years. These audits included a review of our determinations of amortization of certain goodwill arising from the acquisition of Yoki Alimentos S.A. (Yoki). The RFB has proposed adjustments that effectively eliminate the goodwill amortization benefits related to this transaction. We believe we have meritorious defenses and intend to contest the disallowance.

We apply a more-likely-than-not threshold to the recognition and derecognition of uncertain tax positions. Accordingly, we recognize the amount of tax benefit that has a greater than 50 percent likelihood of being ultimately realized upon settlement. Future changes in judgment related to the expected ultimate resolution of uncertain tax positions will affect earnings in the period of such change.

The following table sets forth changes in our total gross unrecognized tax benefit liabilities, excluding accrued interest, for fiscal 2017 and fiscal 2016. Approximately \$62 million of this total in fiscal 2017 represents the amount that, if recognized, would affect our effective income tax rate in future periods. This amount differs from the gross unrecognized tax benefits presented in the table because certain of the liabilities below would impact deferred taxes if recognized. We also would record a decrease in U.S. federal income taxes upon recognition of the state tax benefits included therein.

| In Millions | Fiscal Year | |
|--|-------------|---------|
| | 2017 | 2016 |
| Balance, beginning of year | \$176.5 | \$161.1 |
| Tax positions related to current year: | | |
| Additions | 27.2 | 31.6 |
| Tax positions related to prior years: | | |
| Additions | 0.9 | 23.9 |
| Reductions | (47.9) | (25.7) |
| Settlements | (9.6) | (4.0) |
| Lapses in statutes of limitations | (11.6) | (10.4) |
| Balance, end of year | \$135.5 | \$176.5 |

As of May 28, 2017, we expect to pay approximately \$1.8 million of unrecognized tax benefit liabilities and accrued interest within the next 12 months. We are not

able to reasonably estimate the timing of future cash flows beyond 12 months due to uncertainties in the timing of tax audit outcomes. The remaining amount of our unrecognized tax liability was classified in other liabilities.

We report accrued interest and penalties related to unrecognized tax benefit liabilities in income tax expense. For fiscal 2017, we recognized a net benefit of \$5.6 million of tax-related net interest and penalties, and had \$23.1 million of accrued interest and penalties as of May 28, 2017. For fiscal 2016, we recognized a net benefit of \$2.7 million of tax-related net interest and penalties, and had \$32.1 million of accrued interest and penalties as of May 29, 2016.

NOTE 15. LEASES, OTHER COMMITMENTS, AND CONTINGENCIES

The Company's leases are generally for warehouse space and equipment. Rent expense under all operating leases from continuing operations was \$188.1 million in fiscal 2017, \$189.1 million in fiscal 2016, and \$193.5 million in fiscal 2015.

Some operating leases require payment of property taxes, insurance, and maintenance costs in addition to the rent payments. Contingent and escalation rent in excess of minimum rent payments and sublease income netted in rent expense were insignificant.

Noncancelable future lease commitments are:

| In Millions | Operating Leases | Capital Leases |
|---|------------------|----------------|
| Fiscal 2018 | \$ 118.8 | \$ 0.4 |
| Fiscal 2019 | 101.7 | 0.4 |
| Fiscal 2020 | 80.7 | 0.2 |
| Fiscal 2021 | 60.7 | 0.1 |
| Fiscal 2022 | 49.7 | — |
| After fiscal 2022 | 89.1 | 0.1 |
| Total noncancelable future lease commitments | \$ 500.7 | \$ 1.2 |
| Less: interest | | (0.1) |
| Present value of obligations under capital leases | | \$ 1.1 |

Depreciation on capital leases is recorded as depreciation expense in our results of operations.

As of May 28, 2017, we have issued guarantees and comfort letters of \$504.7 million for the debt and other obligations of consolidated subsidiaries, and guarantees and comfort letters of \$165.3 million for the debt and other obligations of non-consolidated affiliates, mainly

CPW. In addition, off-balance sheet arrangements are generally limited to the future payments under non-cancelable operating leases, which totaled \$500.7 million as of May 28, 2017.

NOTE 16. BUSINESS SEGMENT AND GEOGRAPHIC INFORMATION

We operate in the consumer foods industry. In the third quarter of fiscal 2017, we announced a new global organization structure to streamline our leadership, enhance global scale, and drive improved operational agility to maximize our growth capabilities. As a result of this global reorganization, beginning in the third quarter of fiscal 2017, we reported results for our four operating segments as follows: North America Retail, 65.3 percent of our fiscal 2017 consolidated net sales; Convenience Stores & Foodservice, 12.0 percent of our fiscal 2017 consolidated net sales; Europe & Australia, 11.7 percent of our fiscal 2017 consolidated net sales; and Asia & Latin America, 11.0 percent of our fiscal 2017 consolidated net sales. We have restated our net sales by segment and segment operating profit amounts to reflect our new operating segments. These segment changes had no effect on previously reported consolidated net sales, operating profit, net earnings attributable to General Mills, or earnings per share.

Our North America Retail operating segment consists of our former U.S. Retail operating units and our Canada region. Within our North America Retail operating segment, our former U.S. Meals operating unit and U.S. Baking operating unit have been combined into one operating unit: U.S. Meals & Baking. Our Convenience Stores & Foodservice operating segment is unchanged. Our Europe & Australia operating segment consists of our former Europe region. Our Asia & Latin America operating segment consists of our former Asia/Pacific and Latin America regions.

Under our new organization structure, our chief operating decision maker assesses performance and makes decisions about resources to be allocated to our segments at the North America Retail, Convenience Stores & Foodservice, Europe & Australia, and Asia & Latin America operating segment level.

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.

In our Convenience Stores & Foodservice segment our major product categories 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 consists of our former Europe region. The segment includes 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 company-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 our former Asia/Pacific and Latin America regions. The segment includes 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 company-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.

Operating profit for these segments excludes unallocated corporate items, gain 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 integrated across our operations in order to maximize efficiency and productivity. As a result, fixed assets and depreciation and amortization expenses are neither maintained nor available by operating segment.

Our operating segment results were as follows:

| In Millions | Fiscal Year | | |
|--|-------------|------------|------------|
| | 2017 | 2016 | 2015 |
| Net sales: | | | |
| North America Retail | \$10,196.9 | \$10,936.6 | \$11,612.1 |
| Convenience Stores & Foodservice | 1,870.0 | 1,923.8 | 1,995.1 |
| Europe & Australia | 1,824.5 | 1,998.0 | 2,126.5 |
| Asia & Latin America | 1,728.4 | 1,704.7 | 1,896.6 |
| Total | \$15,619.8 | \$16,563.1 | \$17,630.3 |
| Operating profit: | | | |
| North America Retail | \$ 2,303.6 | \$ 2,351.2 | \$ 2,382.7 |
| Convenience Stores & Foodservice | 401.2 | 378.9 | 353.1 |
| Europe & Australia | 164.2 | 200.3 | 179.4 |
| Asia & Latin America | 83.6 | 69.1 | 119.8 |
| Total segment operating profit | 2,952.6 | 2,999.5 | 3,035.0 |
| Unallocated corporate items | 190.1 | 288.9 | 413.8 |
| Divestitures loss (gain) | 13.5 | (148.2) | — |
| Restructuring, impairment, and other exit costs | 182.6 | 151.4 | 543.9 |
| Operating profit | \$ 2,566.4 | \$ 2,707.4 | \$ 2,077.3 |

Net sales by class of similar products were as follows:

| In Millions | Fiscal Year | | |
|------------------------------|-------------------|-------------------|-------------------|
| | 2017 | 2016 | 2015 |
| Snacks | \$ 3,302.2 | \$ 3,297.2 | \$ 3,392.0 |
| Cereal | 2,673.2 | 2,731.5 | 2,771.3 |
| Convenient meals | 2,653.6 | 2,779.0 | 2,810.3 |
| Yogurt | 2,403.5 | 2,760.9 | 2,938.3 |
| Dough | 1,690.6 | 1,820.0 | 1,877.0 |
| Baking mixes and ingredients | 1,654.1 | 1,704.3 | 1,867.7 |
| Super-premium ice cream | 738.4 | 731.2 | 769.5 |
| Vegetables | 310.5 | 532.3 | 937.3 |
| Other | 193.7 | 206.7 | 266.9 |
| Total | \$15,619.8 | \$16,563.1 | \$17,630.3 |

The following table provides financial information by geographic area:

| In Millions | Fiscal Year | | |
|-------------------|-------------------|-------------------|-------------------|
| | 2017 | 2016 | 2015 |
| Net sales: | | | |
| United States | \$11,160.9 | \$11,930.9 | \$12,501.8 |
| Non-United States | 4,458.9 | 4,632.2 | 5,128.5 |
| Total | \$15,619.8 | \$16,563.1 | \$17,630.3 |

| In Millions | May 28, | May 29, |
|----------------------------|-----------------|-----------------|
| | 2017 | 2016 |
| Cash and cash equivalents: | | |
| United States | \$ 62.9 | \$ 118.5 |
| Non-United States | 703.2 | 645.2 |
| Total | \$ 766.1 | \$ 763.7 |

| In Millions | May 28, | May 29, |
|---------------------------------|-------------------|-------------------|
| | 2017 | 2016 |
| Land, buildings, and equipment: | | |
| United States | \$ 2,704.0 | \$ 2,755.1 |
| Non-United States | 983.7 | 988.5 |
| Total | \$ 3,687.7 | \$ 3,743.6 |

NOTE 17. SUPPLEMENTAL INFORMATION

The components of certain Consolidated Balance Sheet accounts are as follows:

| In Millions | May 28, | May 29, |
|--------------------------------------|-------------------|-------------------|
| | 2017 | 2016 |
| Receivables: | | |
| Customers | \$ 1,454.4 | \$ 1,390.4 |
| Less allowance for doubtful accounts | (24.3) | (29.6) |
| Total | \$ 1,430.1 | \$ 1,360.8 |

| In Millions | May 28, | May 29, |
|--|-------------------|-------------------|
| | 2017 | 2016 |
| Inventories: | | |
| Raw materials and packaging | \$ 395.4 | \$ 397.3 |
| Finished goods | 1,224.3 | 1,163.1 |
| Grain | 73.0 | 72.6 |
| Excess of FIFO over LIFO cost ^(a) | (209.1) | (219.3) |
| Total | \$ 1,483.6 | \$ 1,413.7 |

(a) Inventories of \$893.8 million as of May 28, 2017, and \$841.0 million as of May 29, 2016, were valued at LIFO. The difference between replacement cost and the stated LIFO inventory value is not materially different from the reserve for the LIFO valuation method.

| In Millions | May 28, | May 29, |
|--|-----------------|-----------------|
| | 2017 | 2016 |
| Prepaid expenses and other current assets: | | |
| Other receivables | \$ 163.7 | \$ 159.3 |
| Prepaid expenses | 168.9 | 177.9 |
| Derivative receivables, primarily commodity-related | 35.0 | 44.6 |
| Grain contracts | 2.7 | 1.8 |
| Miscellaneous | 11.3 | 15.4 |
| Total | \$ 381.6 | \$ 399.0 |

| In Millions | May 28, | May 29, |
|--------------------------------------|-------------------|-------------------|
| | 2017 | 2016 |
| Land, buildings, and equipment: | | |
| Land | \$ 79.8 | \$ 92.9 |
| Buildings | 2,249.2 | 2,236.0 |
| Buildings under capital lease | 0.3 | 0.3 |
| Equipment | 6,095.9 | 5,945.6 |
| Equipment under capital lease | 3.0 | 3.0 |
| Capitalized software | 545.4 | 523.0 |
| Construction in progress | 553.0 | 702.7 |
| Total land, buildings, and equipment | 9,526.6 | 9,503.5 |
| Less accumulated depreciation | (5,838.9) | (5,759.9) |
| Total | \$ 3,687.7 | \$ 3,743.6 |

| In Millions | May 28, | May 29, |
|--|-----------------|-----------------|
| | 2017 | 2016 |
| Other assets: | | |
| Investments in and advances to joint ventures | \$ 505.3 | \$ 518.9 |
| Pension assets | 144.9 | 90.9 |
| Exchangeable note with related party | — | 12.7 |
| Life insurance | 25.6 | 26.3 |
| Miscellaneous | 110.1 | 102.9 |
| Total | \$ 785.9 | \$ 751.7 |

| In Millions | May 28, 2017 | May 29, 2016 |
|--|------------------|------------------|
| Other current liabilities: | | |
| Accrued trade and consumer promotions | \$ 482.6 | \$ 563.7 |
| Accrued payroll | 326.6 | 386.4 |
| Dividends payable | 21.5 | 23.8 |
| Accrued taxes | 58.0 | 110.5 |
| Accrued interest, including interest rate swaps | 83.8 | 90.4 |
| Grain contracts | 5.6 | 5.5 |
| Restructuring and other exit costs reserve | 85.0 | 76.6 |
| Derivative payable | 18.1 | 35.6 |
| Miscellaneous | 291.0 | 302.5 |
| Total | \$1,372.2 | \$1,595.0 |

| In Millions | May 28, 2017 | May 29, 2016 |
|---|------------------|------------------|
| Other noncurrent liabilities: | | |
| Accrued compensation and benefits, including obligations for underfunded other postretirement benefit and postemployment benefit plans | \$1,249.7 | \$1,755.0 |
| Accrued taxes | 162.3 | 204.0 |
| Miscellaneous | 111.1 | 128.6 |
| Total | \$1,523.1 | \$2,087.6 |

Certain Consolidated Statements of Earnings amounts are as follows:

| In Millions | Fiscal Year | | |
|--|-------------|---------|---------|
| | 2017 | 2016 | 2015 |
| Depreciation and amortization | \$603.6 | \$608.1 | \$588.3 |
| Research and development expense | 218.2 | 222.1 | 229.4 |
| Advertising and media expense (including production and communication costs) | 623.8 | 754.4 | 823.1 |

The components of interest, net are as follows:

| Expense (Income), in Millions | Fiscal Year | | |
|-------------------------------|----------------|----------------|----------------|
| | 2017 | 2016 | 2015 |
| Interest expense | \$306.7 | \$319.6 | \$335.5 |
| Capitalized interest | (4.6) | (7.7) | (6.9) |
| Interest income | (7.0) | (8.1) | (13.2) |
| Interest, net | \$295.1 | \$303.8 | \$315.4 |

Certain Consolidated Statements of Cash Flows amounts are as follows:

| In Millions | Fiscal Year | | |
|----------------------------|-------------|---------|---------|
| | 2017 | 2016 | 2015 |
| Cash interest payments | \$285.8 | \$292.0 | \$305.3 |
| Cash paid for income taxes | 551.1 | 533.8 | 562.6 |

NOTE 18. QUARTERLY DATA (UNAUDITED)

Summarized quarterly data for fiscal 2017 and fiscal 2016 follows:

| In Millions, Except Per Share Amounts | First Quarter | | Second Quarter | | Third Quarter | | Fourth Quarter | |
|---|---------------|-----------|----------------|-----------|---------------|-----------|----------------|-----------|
| | Fiscal Year | | Fiscal Year | | Fiscal Year | | Fiscal Year | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Net sales | \$3,907.9 | \$4,207.9 | \$4,112.1 | \$4,424.9 | \$3,793.2 | \$4,002.4 | \$3,806.6 | \$3,927.9 |
| Gross margin | 1,416.9 | 1,554.6 | 1,519.5 | 1,540.6 | 1,307.7 | 1,357.5 | 1,319.7 | 1,376.8 |
| Net earnings attributable to General Mills | 409.0 | 426.6 | 481.8 | 529.5 | 357.8 | 361.7 | 408.9 | 379.6 |
| EPS: | | | | | | | | |
| Basic | \$ 0.68 | \$ 0.71 | \$ 0.82 | \$ 0.88 | \$ 0.62 | \$ 0.61 | \$ 0.70 | \$ 0.63 |
| Diluted | \$ 0.67 | \$ 0.69 | \$ 0.80 | \$ 0.87 | \$ 0.61 | \$ 0.59 | \$ 0.69 | \$ 0.62 |
| Dividends per share | \$ 0.48 | \$ 0.44 | \$ 0.48 | \$ 0.44 | \$ 0.48 | \$ 0.44 | \$ 0.48 | \$ 0.46 |
| Market price of common stock: | | | | | | | | |
| High | \$ 72.64 | \$ 59.55 | \$ 71.42 | \$ 59.23 | \$ 63.87 | \$ 60.14 | \$ 61.16 | \$ 65.36 |
| Low | \$ 62.78 | \$ 54.36 | \$ 60.65 | \$ 55.41 | \$ 59.23 | \$ 54.12 | \$ 55.91 | \$ 58.85 |

The effective tax rate for the fourth quarter of fiscal 2016 was 19.2 percent, primarily driven by tax credits and the impact of the divestiture of our business in Venezuela.

During the fourth quarter of fiscal 2016, we sold our General Mills de Venezuela CA subsidiary to a third party and exited our business in Venezuela. As a result of this transaction, we recorded a pre-tax loss of \$37.6 million. In addition, we sold our General Mills Argentina S.A. foodservice business in Argentina to a third party and recorded a pre-tax loss of \$14.8 million.

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.

AOCI. Accumulated other comprehensive income (loss).

Adjusted average total capital. Notes payable, long-term debt including current portion, redeemable interest, noncontrolling interests, and stockholders' equity excluding AOCI, and certain after-tax earnings adjustments are used to calculate adjusted return on average total capital. The average is calculated using the average of the beginning of fiscal year and end of fiscal year Consolidated Balance Sheet amounts for these line items.

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

Adjusted return on average total capital. Net earnings including earnings attributable to redeemable and noncontrolling interests, excluding after-tax net interest, and adjusted for certain items affecting year-over-year comparability, divided by adjusted average total capital.

Average total capital. Notes payable, long-term debt including current portion, redeemable interest, noncontrolling interests, and stockholders' equity are used to calculate return on average total capital. The average is calculated using the average of the beginning of fiscal year and end of fiscal year Consolidated Balance Sheet amounts for these line items.

Constant currency. Financial results translated to United States 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.

Core working capital. Accounts receivable plus inventories less accounts payable, all as of the last day of our fiscal year.

Derivatives. Financial instruments such as futures, swaps, options, and forward contracts that we use to

manage our risk arising from changes in commodity prices, interest rates, foreign exchange rates, and equity prices.

Euribor. European 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.

Foundation businesses. Foundation businesses consist primarily of refrigerated dough, desserts, and soup in our North America Retail segment and bakery flour and frozen dough products in our Convenience Stores & Foodservice segment, as well as other product lines not included in Growth businesses.

Free cash flow. Net cash provided by operating activities less purchases of land, buildings, and equipment.

Free cash flow conversion rate. Free cash flow divided by our net earnings, including earnings attributable to redeemable and noncontrolling interests adjusted for certain items affecting year-over-year comparability.

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.

Growth businesses. Growth businesses include cereal, snack bars, the natural and organic portfolio, hot snacks, Mexican products, and yogurt in our North America Retail segment; our Europe & Australia segment; our Asia & Latin America segment; and our Focus 6 platforms in our Convenience Stores & Foodservice segment.

Gross margin. Net sales less cost of sales.

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.

Holistic Margin Management (HMM). Company-wide initiative to use productivity savings, mix management and price realization to offset input cost inflation, protect margins and generate funds to reinvest in sales-generating activities.

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.

Net realizable value. The estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

Noncontrolling interests. Interests of consolidated 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 (loss).

Operating cash flow conversion rate. Net cash provided by operating activities, divided by net earnings, including earnings attributable to redeemable and noncontrolling interests.

Operating cash flow to debt ratio. Net cash provided by operating activities, divided by the sum of notes payable and long-term debt, including the current portion.

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 consolidated 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.

Reporting unit. An operating segment or a business one level below an operating segment.

Return on average total capital. Net earnings including earnings attributable to redeemable and noncontrolling interests, excluding after-tax net interest, divided by average total capital.

Segment operating profit margin. Segment operating profit divided by net sales for the segment.

Strategic Revenue Management (SRM). A company-wide capability focused on generating sustainable benefits from net price realization and mix by identifying and executing against specific opportunities to apply tools including pricing, sizing, mix management, and promotion optimization across each of our businesses.

Supply chain input costs. Costs incurred to produce and deliver product, including costs for ingredients and conversion, inventory management, logistics, and warehousing.

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 United States dollars for the purpose of consolidating our financial statements.

Variable interest entities (VIEs). A legal structure that is used for business purposes that either (1) does not have equity investors that have voting rights and share in all the entity's profits and losses or (2) has equity investors that do not provide sufficient financial resources to support the entity's activities.

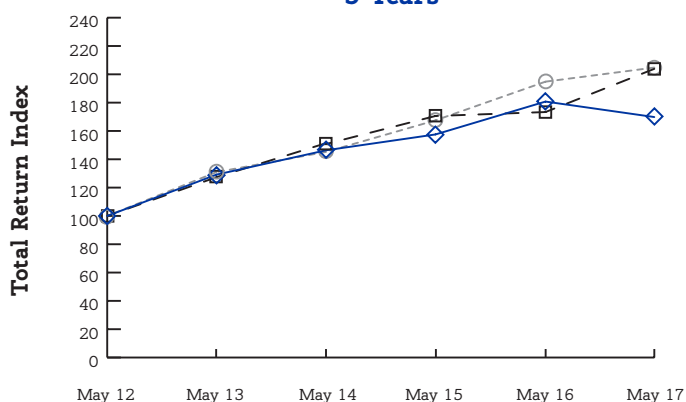
Working capital. Current assets and current liabilities, all as of the last day of our fiscal year.

TOTAL RETURN TO SHAREHOLDERS

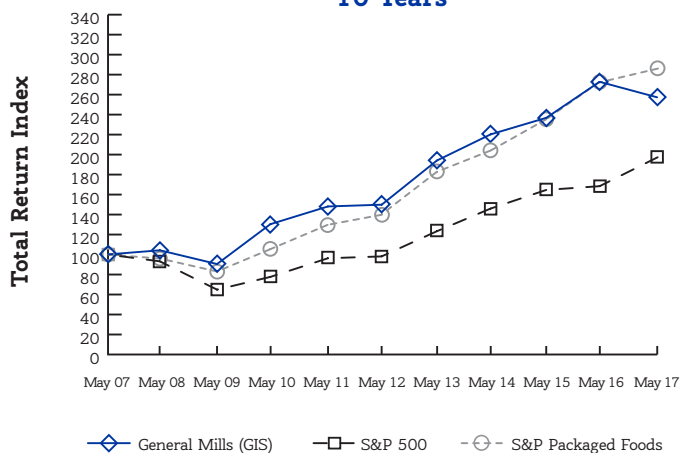
These line graphs compare the cumulative total return for holders of our common stock with the cumulative total return of the Standard & Poor’s 500 Stock Index and Standard & Poor’s 500 Packaged Foods Index for the last five-year and ten-year fiscal periods. The graphs assume the investment of \$100 in each of General Mills’ common stock and the specified indexes at the beginning of the applicable period, and assume the reinvestment of all dividends.

On June 9, 2017, there were approximately 31,000 record holders of our common stock.

**Total Return to Shareholders
5 Years**



**Total Return to Shareholders
10 Years**



◆ General Mills (GIS) □ S&P 500 ⊖ S&P Packaged Foods

BOARD OF DIRECTORS *As of August 1, 2017*

Bradbury H. Anderson (2*, 5)
Retired Chief Executive Officer
and Vice Chairman,
Best Buy Co., Inc.
(electronics retailer)

Alicia Boler Davis (3, 5)
Executive Vice President,
Global Manufacturing,
General Motors Company
(automobile manufacturing)

R. Kerry Clark** (3, 4)
Retired Chairman and
Chief Executive Officer,
Cardinal Health, Inc.
(healthcare products and
services)

David M. Cordani (1, 2)
President and Chief Executive
Officer, Cigna Corporation
(health insurance and services)

Roger W. Ferguson Jr. (3, 4)
President and Chief Executive
Officer, TIAA
(financial services)

Henrietta H. Fore (4, 5*)
Chairman and Chief Executive
Officer, Holsman International
(manufacturing and investment
services)

Jeffrey L. Harmening
Chief Executive Officer,
General Mills, Inc.

Maria G. Henry (1, 2)
Senior Vice President and
Chief Financial Officer,
Kimberly-Clark Corporation
(consumer products)

Heidi G. Miller (1*, 3)
Retired President,
JPMorgan International,
J.P. Morgan Chase & Co.
(banking and financial services)

Steve Odland (2, 4*)
President and Chief Executive
Officer, Committee for
Economic Development
(public policy) and Former
Chairman and Chief Executive
Officer, Office Depot, Inc.
(office products retailer)

Kendall J. Powell
Chairman of the Board,
General Mills, Inc.

Robert L. Ryan (1, 3*)+
Retired Senior Vice President
and Chief Financial Officer,
Medtronic, Inc.
(medical technology)

Eric D. Sprunk (1, 5)
Chief Operating Officer,
NIKE, Inc.
(athletic footwear and apparel)

Dorothy A. Terrell (4, 5)+
Managing Partner,
FirstCap Advisors
(venture capital)

Jorge A. Uribe (2, 5)
Retired Global Productivity
and Organization
Transformation Officer,
The Procter & Gamble Company
(consumer products)

Board Committees

- 1 Audit
- 2 Compensation
- 3 Finance
- 4 Corporate Governance
- 5 Public Responsibility

* Denotes Committee Chair

** Independent Lead Director

+ Retiring from the board
September 2017

SENIOR MANAGEMENT *As of August 1, 2017*

Richard C. Allendorf
Senior Vice President;
General Counsel and Secretary

Kofi A. Bruce
Vice President;
Controller

John R. Church
Executive Vice President;
Chief Supply Chain Officer and
Global Business Solutions

David V. Clark
Vice President;
President, U.S. Yogurt

Mary J. Ekman
Senior Vice President,
North America Retail Finance

Peter C. Erickson
Executive Vice President,
Innovation, Technology
and Quality

Olivier Faujour
Vice President;
President, Dairy Strategic
Brand Unit

Ricardo Fernandez
Vice President;
President, Latin America

John M. Foraker
Vice President;
President, Annie's Foods

Jeffrey L. Harmening
Chief Executive Officer

David P. Homer
Senior Vice President;
Chief Executive Officer,
Cereal Partners Worldwide

Christina Law
Senior Vice President;
Group President, Asia &
Latin America

Dana M. McNabb
Vice President;
President, U.S. Cereal

Michele S. Meyer
Senior Vice President;
President, U.S. Snacks

Donal L. Mulligan
Executive Vice President;
Chief Financial Officer

James H. Murphy
Senior Vice President;
President, U.S. Meals & Baking

Kimberly A. Nelson
Senior Vice President,
External Relations;
President, General Mills
Foundation

Jonathon J. Nudi
Senior Vice President;
Group President, North
America Retail

Shawn P. O'Grady
Senior Vice President;
Group President, Convenience
Stores & Foodservice and
Global Revenue Management

Ivan Pollard
Senior Vice President;
Chief Marketing Officer

Kendall J. Powell
Chairman of the Board

Bethany C. Quam
Senior Vice President;
Group President, Europe &
Australia

Sean N. Walker
Senior Vice President,
Corporate Strategy

Brett M. White
Vice President;
Treasurer

Jacqueline R. Williams-Roll
Senior Vice President;
Chief Human Resources Officer

SHAREHOLDER INFORMATION

World Headquarters

Number One General Mills Boulevard
Minneapolis, MN 55426-1347
Phone: (763) 764-7600

Website

GeneralMills.com

Markets

New York Stock Exchange
Trading Symbol: GIS

Independent Auditor

KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402-3900
Phone: (612) 305-5000

Investor Inquiries

General Shareholder Information:
Investor Relations Department
Phone: (800) 245-5703 or (763) 764-3202

Analysts/Investors:

Jeff Siemon
Vice President, Investor Relations
Phone: (763) 764-2301

Transfer Agent and Registrar

Our transfer agent can assist you with a variety of services, including change of address or questions about dividend checks:

Wells Fargo Bank, N.A.
1110 Centre Pointe Curve
Mendota Heights, MN 55120-4100
Phone: (800) 670-4763 or (651) 450-4084
shareowneronline.com

Electronic Access to Proxy Statement, Annual Report and Form 10-K

Shareholders who have access to the Internet are encouraged to enroll in the electronic delivery program. Please see the Investors section of GeneralMills.com, or go directly to the website, ICSDelivery.com/GIS and follow the instructions to enroll. If your General Mills shares are not registered in your name, contact your bank or broker to enroll in this program.

Notice of Annual Meeting

The annual meeting of shareholders will be held at 8:30 a.m., Central Daylight Time, Tuesday, Sept. 26, 2017, at the Radisson Blu Hotel in downtown Minneapolis at 35 South Seventh Street, Minneapolis, MN 55402. Proof of share ownership is required for admission. Please refer to the Proxy Statement for information concerning admission to the meeting.

General Mills Direct Stock Purchase Plan

This plan provides a convenient and economical way to invest in General Mills stock. You can increase your ownership over time through purchases of common stock and reinvestment of cash dividends, without paying brokerage commissions and other fees on your purchases and reinvestments. For more information and a copy of a plan prospectus, go to the Investors section of GeneralMills.com.

HOLIDAY GIFT BOXES

General Mills gift boxes are part of many shareholders' December holiday traditions. To request an order form, call us toll-free at (888) 496-7809 or write, including your name, street address, city, state, ZIP code and phone number (including area code) to:

2017 General Mills Holiday Gift Box
Department 11553
P.O. Box 5017
Stacy, MN 55078-5017

Or you can place an order online at: GMIHolidayGiftBox.com

Please contact us after October 15, 2017.



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