

GENERAL MILLS INC
Form 10-Q
December 20, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED November 26, 2017

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

Commission file number: 001-01185

GENERAL MILLS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

41-0274440
(I.R.S. Employer
Identification No.)

Number One General Mills Boulevard
Minneapolis, Minnesota
(Address of principal executive offices)

55426
(Zip Code)

(763) 764-7600

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

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

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

Number of shares of Common Stock outstanding as of December 11, 2017: 569,043,789 (excluding 185,569,539 shares held in the treasury).

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General Mills, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Earnings

GENERAL MILLS, INC. AND SUBSIDIARIES

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

	Quarter Ended		Six-Month Period Ended	
	Nov. 26, 2017	Nov. 27, 2016	Nov. 26, 2017	Nov. 27, 2016
Net sales	\$ 4,198.7	\$ 4,112.1	\$ 7,967.9	\$ 8,020.0
Cost of sales	2,755.7	2,592.6	5,214.8	5,083.6
Selling, general, and administrative expenses	711.6	708.1	1,390.7	1,420.3
Divestiture loss		13.5		13.5
Restructuring, impairment, and other exit costs	1.6	29.0	6.8	87.9
Operating profit	729.8	768.9	1,355.6	1,414.7
Interest, net	74.9	75.5	147.3	149.4
Earnings before income taxes and after-tax earnings from joint ventures	654.9	693.4	1,208.3	1,265.3
Income taxes	234.9	227.4	403.4	404.0
After-tax earnings from joint ventures	23.8	29.8	47.5	54.0
Net earnings, including earnings attributable to redeemable and noncontrolling interests	443.8	495.8	852.4	915.3
Net earnings attributable to redeemable and noncontrolling interests	13.3	14.0	17.2	24.5
Net earnings attributable to General Mills	\$ 430.5	\$ 481.8	\$ 835.2	\$ 890.8
Earnings per share - basic	\$ 0.75	\$ 0.82	\$ 1.46	\$ 1.50
Earnings per share - diluted	\$ 0.74	\$ 0.80	\$ 1.43	\$ 1.47
Dividends per share	\$ 0.49	\$ 0.48	\$ 0.98	\$ 0.96

See accompanying notes to consolidated financial statements.

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

GENERAL MILLS, INC. AND SUBSIDIARIES

(Unaudited) (In Millions)

	Quarter Ended		Six-Month Period Ended	
	Nov. 26, 2017	Nov. 27, 2016	Nov. 26, 2017	Nov. 27, 2016
Net earnings, including earnings attributable to redeemable and noncontrolling interests	\$ 443.8	\$ 495.8	\$ 852.4	\$ 915.3
Other comprehensive income (loss), net of tax:				
Foreign currency translation	(42.0)	(105.7)	19.5	(25.3)
Other fair value changes:				
Securities	0.5	(0.1)	0.8	0.3
Hedge derivatives	(0.1)	32.1	(8.9)	47.3
Reclassification to earnings:				
Hedge derivatives	0.8	(7.8)	0.6	(10.6)
Amortization of losses and prior service costs	27.9	31.8	55.7	62.4
Other comprehensive income (loss), net of tax	(12.9)	(49.7)	67.7	74.1
Total comprehensive income	430.9	446.1	920.1	989.4
Comprehensive income (loss) attributable to redeemable and noncontrolling interests	12.8	(43.5)	84.8	(36.7)
Comprehensive income attributable to General Mills	\$ 418.1	\$ 489.6	\$ 835.3	\$ 1,026.1

See accompanying notes to consolidated financial statements.

Table of Contents**Consolidated Balance Sheets**

GENERAL MILLS, INC. AND SUBSIDIARIES

(In Millions, Except Par Value)

	Nov. 26, 2017 (Unaudited)	May 28, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 962.1	\$ 766.1
Receivables	1,510.5	1,430.1
Inventories	1,516.5	1,483.6
Prepaid expenses and other current assets	345.0	381.6
Total current assets	4,334.1	4,061.4
Land, buildings, and equipment	3,631.4	3,687.7
Goodwill	8,828.3	8,747.2
Other intangible assets	4,581.8	4,530.4
Other assets	815.9	785.9
Total assets	\$ 22,191.5	\$ 21,812.6
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 2,467.0	\$ 2,119.8
Current portion of long-term debt	200.5	604.7
Notes payable	1,298.0	1,234.1
Other current liabilities	1,384.0	1,372.2
Total current liabilities	5,349.5	5,330.8
Long-term debt	8,228.3	7,642.9
Deferred income taxes	1,790.9	1,719.4
Other liabilities	1,439.7	1,523.1
Total liabilities	16,808.4	16,216.2
Redeemable interest	793.4	910.9
Stockholders' equity:		
Common stock, 754.6 shares issued, \$0.10 par value	75.5	75.5
Additional paid-in capital	1,243.3	1,120.9
Retained earnings	13,408.9	13,138.9
Common stock in treasury, at cost, shares of 186.0 and 177.7	(8,252.6)	(7,762.9)

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Accumulated other comprehensive loss	(2,244.4)	(2,244.5)
Total stockholders' equity	4,230.7	4,327.9
Noncontrolling interests	359.0	357.6
Total equity	4,589.7	4,685.5
Total liabilities and equity	\$ 22,191.5	\$ 21,812.6

See accompanying notes to consolidated financial statements.

Table of Contents**Consolidated Statements of Total Equity and Redeemable Interest**

GENERAL MILLS, INC. AND SUBSIDIARIES

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

**\$.10 Par Value Common Stock
(One Billion Shares Authorized)**

Issued Treasury

	Shares	Par Amount	Additional Paid-In Capital	Shares	Amount	Accumulated			Total Equity	Redeemable Interest
						Retained Earnings	Other Comprehensive Loss	Non- controlling Interests		
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 restricted 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			(0.2)					0.1	(0.1)	

subsidiary										
Distributions to noncontrolling and redeemable 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
Total comprehensive income						835.2	0.1	28.1	863.4	56.7
Cash dividends declared (\$0.98 per share)						(565.2)			(565.2)	
Shares purchased				(10.9)	(600.5)					(600.5)
Stock compensation plans (includes income tax benefits of \$20.2)			(20.6)	2.6	110.8				90.2	
Unearned compensation related to restricted stock unit awards			(61.2)						(61.2)	
Earned compensation			48.6						48.6	
Decrease in redemption value of redeemable interest			155.6						155.6	(155.6)
Distributions to noncontrolling and redeemable interest holders								(26.7)	(26.7)	(18.6)
Balance as of Nov. 26, 2017	754.6	\$ 75.5	\$ 1,243.3	(186.0)	\$(8,252.6)	\$ 13,408.9	\$(2,244.4)	\$ 359.0	\$ 4,589.7	\$ 793.4

See accompanying notes to consolidated financial statements.

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

GENERAL MILLS, INC. AND SUBSIDIARIES

(Unaudited) (In Millions)

	Six-Month Period Ended	
	Nov. 26, 2017	Nov. 27, 2016
Cash Flows - Operating Activities		
Net earnings, including earnings attributable to redeemable and noncontrolling interests	\$ 852.4	\$ 915.3
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	290.8	301.1
After-tax earnings from joint ventures	(47.5)	(54.0)
Distributions of earnings from joint ventures	45.1	31.9
Stock-based compensation	48.2	56.2
Deferred income taxes	70.2	94.6
Pension and other postretirement benefit plan contributions	(12.6)	(22.6)
Pension and other postretirement benefit plan costs	2.4	17.9
Divestiture loss		13.5
Restructuring, impairment, and other exit costs	(7.4)	71.0
Changes in current assets and liabilities	362.3	(340.9)
Other, net	(37.1)	(5.3)
Net cash provided by operating activities	1,566.8	1,078.7
Cash Flows - Investing Activities		
Purchases of land, buildings, and equipment	(260.0)	(318.3)
Investments in affiliates, net	(7.4)	(7.7)
Proceeds from disposal of land, buildings, and equipment	0.6	0.4
Proceeds from divestiture		17.5
Exchangeable note		13.0
Other, net	(3.9)	15.1
Net cash used by investing activities	(270.7)	(280.0)
Cash Flows - Financing Activities		
Change in notes payable	53.1	1,164.5
Issuance of long-term debt	500.0	
Payment of long-term debt	(500.1)	(0.1)
Proceeds from common stock issued on exercised options	50.6	77.0
Purchases of common stock for treasury	(600.5)	(1,349.9)
Dividends paid	(565.2)	(575.5)
Distributions to noncontrolling and redeemable interest holders	(45.3)	(4.6)
Other, net	(23.6)	(31.4)

Net cash used by financing activities	(1,131.0)	(720.0)
Effect of exchange rate changes on cash and cash equivalents	30.9	(32.7)
Increase in cash and cash equivalents	196.0	46.0
Cash and cash equivalents - beginning of year	766.1	763.7
Cash and cash equivalents - end of period	\$ 962.1	\$ 809.7
Cash Flow from changes in current assets and liabilities:		
Receivables	\$ (53.9)	\$ (45.3)
Inventories	(15.6)	(120.7)
Prepaid expenses and other current assets	42.3	(2.3)
Accounts payable	377.0	(19.9)
Other current liabilities	12.5	(152.7)
Changes in current assets and liabilities	\$ 362.3	\$ (340.9)

See accompanying notes to consolidated financial statements.

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GENERAL MILLS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Background

The accompanying Consolidated Financial Statements of General Mills, Inc. (we, us, our, General Mills, or the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the rules and regulations for reporting on Form 10-Q. Accordingly, they do not include certain information and disclosures required for comprehensive financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature, including the elimination of all intercompany transactions and any noncontrolling and redeemable interests share of those transactions. Operating results for the quarter ended November 26, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending May 27, 2018.

These statements should be read in conjunction with the Consolidated Financial Statements and footnotes included in our Annual Report on Form 10-K for the fiscal year ended May 28, 2017. The accounting policies used in preparing these Consolidated Financial Statements are the same as those described in Note 2 to the Consolidated Financial Statements in that Form 10-K with the exception of the new accounting requirements adopted in the first quarter of fiscal 2018 for stock-based payments and goodwill impairment testing. See Note 16 to the Consolidated Financial Statements in Part I, Item 1 of this report for additional information. Certain terms used throughout this report are defined in the Glossary section below.

In the second quarter of fiscal 2018, we recorded an adjustment related to a prior year which increased income tax expense and total liabilities by \$42.2 million in our Consolidated Financial Statements. We determined the adjustment to be immaterial to our estimated Consolidated Statements of Earnings for the fiscal year ended May 27, 2018.

(2) Divestiture

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 arrangement with the purchaser. We received \$17.5 million in cash, and recorded a pre-tax loss of \$13.5 million.

Table of Contents**(3) Restructuring Initiatives**

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

In Millions	Quarter Ended Nov. 26, 2017				Quarter Ended Nov. 27, 2016					
	Severance	Asset Write-offs	Accelerated Depreciation	Other	Total	Severance	Asset Write-offs	Accelerated Depreciation	Other	Total
Global reorganization	\$ 0.2	\$ 0.5	\$	\$ (0.1)	\$ 0.6	\$	\$	\$	\$	\$
Closure of Melbourne, Australia plant			0.6	2.2	2.8	11.3		0.7		12.0
Restructuring of certain international product lines						4.1	2.2	(0.3)	0.9	6.9
Closure of Vineland, New Jersey plant	(2.4)	8.8		(7.7)	(1.3)	(0.1)		7.0	0.1	7.0
Project Compass										
Project Century		4.8		(4.7)	0.1	0.2	5.0	5.4	5.3	15.9
Total	\$ (2.2)	\$ 14.1	\$ 0.6	\$ (10.3)	\$ 2.2	\$ 15.5	\$ 7.2	\$ 12.8	\$ 6.3	\$ 41.8

In Millions	Six-Month Period Ended Nov. 26, 2017				Six-Month Period Ended Nov. 27, 2016					
	Severance	Asset Write-offs	Accelerated Depreciation	Other	Total	Severance	Asset Write-offs	Accelerated Depreciation	Other	Total
Global reorganization	\$ 0.6	\$ 0.6	\$	\$ 0.2	\$ 1.4	\$	\$	\$	\$	\$
Closure of Melbourne, Australia plant	0.6		2.1	2.2	4.9	11.3		0.7		12.0
Restructuring of certain international product lines						6.4	35.8	(0.3)	1.4	43.3
Closure of Vineland, New Jersey plant	(2.2)	8.9	10.6	(5.2)	12.1	12.3		14.0	1.6	27.9
Project Compass	(0.2)				(0.2)			0.2	0.8	1.0
Project Century	0.1	5.7		(4.3)	1.5	0.5	8.1	14.6	6.9	30.1
Total	\$ (1.1)	\$ 15.2	\$ 12.7	\$ (7.1)	\$ 19.7	\$ 30.5	\$ 43.9	\$ 29.2	\$ 10.7	\$ 114.3

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 \$76 million of net expenses relating to these actions, all of which will be cash. We recorded \$0.6 million of restructuring charges in the second quarter of fiscal 2018 and \$1.4 million in the six-month period ended November 26, 2017 relating to these actions. 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 \$2.8 million of restructuring charges in the second quarter of fiscal 2018 and \$4.9 million in the six-month period ended November 26, 2017 relating to this action. We recorded \$12.0 million of restructuring charges in the second quarter of fiscal 2017 and \$12.0 million in the six-month period ended November 27, 2016. 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. There have been no restructuring charges in fiscal 2018 relating to these actions. We recorded \$6.9 million of restructuring charges in the second quarter of fiscal 2017 and \$43.3 million in the six-month period ended November 27, 2016. We expect these actions to be completed by the end of fiscal 2019.

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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 affected 380 positions, and we expect to incur approximately \$54 million of net expenses relating to this action, of which approximately \$11 million will be cash. We recorded a net gain of \$1.3 million primarily related to the sale of assets in the second quarter of fiscal 2018 and \$12.1 million of restructuring charges in the six-month period ended November 26, 2017. We recorded \$7.0 million of restructuring expenses in the second quarter of fiscal 2017 and \$27.9 million in the six-month period ended November 27, 2016. We expect this action to be completed by the end of fiscal 2018.

During the six-month period ended November 26, 2017, we paid \$27.1 million in cash relating to restructuring initiatives and \$43.3 million in the six-month period ended November 27, 2016.

In addition to restructuring charges, we recorded \$4.2 million of project-related costs in cost of sales in the second quarter of fiscal 2018 and \$5.4 million in the six-month period ended November 26, 2017. We paid \$5.0 million in cash in the six-month period ended November 26, 2017 for project-related costs. We expect to incur approximately \$8 million of project-related costs in future periods related to our restructuring initiatives.

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

In Millions	Quarter Ended		Six-Month Period Ended	
	Nov. 26, 2017	Nov. 27, 2016	Nov. 26, 2017	Nov. 27, 2016
Cost of sales	\$ 0.6	\$ 12.8	\$ 12.9	\$ 26.4
Restructuring, impairment, and other exit costs	1.6	29.0	6.8	87.9
Total restructuring charges	2.2	41.8	19.7	114.3
Project-related costs classified in cost of sales	\$ 4.2	\$ 11.1	\$ 5.4	\$ 24.9

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

In Millions	Contract		Other		Total
	Severance	Termination	Exit	Costs	
Reserve balance as of May 28, 2017	\$ 81.8	\$ 0.7	\$ 2.5	\$ 85.0	
Fiscal 2018 charges, including foreign currency translation	(2.0)	0.2	0.4	(1.4)	
Utilized in fiscal 2018	(35.5)	(0.7)	(0.8)	(37.0)	
Reserve balance as of Nov. 26, 2017	\$ 44.3	\$ 0.2	\$ 2.1	\$ 46.6	

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

Table of Contents**(4) Goodwill and Other Intangible Assets**

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

In Millions	Nov. 26, 2017	May 28, 2017
Goodwill	\$ 8,828.3	\$ 8,747.2
Other intangible assets:		
Intangible assets not subject to amortization:		
Brands and other indefinite-lived intangibles	4,203.4	4,161.1
Intangible assets subject to amortization:		
Franchise agreements, customer relationships, and other finite-lived intangibles	555.2	524.8
Less accumulated amortization	(176.8)	(155.5)
Intangible assets subject to amortization, net	378.4	369.3
Other intangible assets	4,581.8	4,530.4
Total	\$ 13,410.1	\$ 13,277.6

Based on the carrying value of finite-lived intangible assets as of November 26, 2017, annual amortization expense for each of the next five fiscal years is estimated to be approximately \$27 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 as well as 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 15 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 during fiscal 2018 were as follows:

In Millions	North Convenience Stores America		Europe & Asia & Latin Australia America		Joint Ventures	Total
	Retail	& Foodservice	Australia	America	Ventures	Total
Balance as of May 28, 2017	\$ 6,406.5	\$ 918.8	\$ 700.8	\$ 312.4	\$ 408.7	\$ 8,747.2
Other activity, primarily foreign currency translation	6.5		43.5	3.7	27.4	81.1

Balance as of Nov. 26, 2017	\$ 6,413.0	\$	918.8	\$	744.3	\$	316.1	\$	436.1	\$ 8,828.3
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The changes in the carrying amount of other intangible assets during fiscal 2018 were as follows:

In Millions	Total
Balance as of May 28, 2017	\$ 4,530.4
Other activity, primarily foreign currency translation	51.4
Balance as of Nov. 26, 2017	\$ 4,581.8

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Our annual goodwill and indefinite-lived intangible assets impairment test was performed on the first day of the second quarter of fiscal 2018 and we determined there was no impairment of our intangible assets as their related fair values were substantially in excess of the carrying values, except for the *Yoki* and *Progresso* brand intangible assets and the Latin America reporting unit.

The excess fair value as of the fiscal 2018 test date of the *Yoki* and *Progresso* brand intangible assets and the Latin America reporting unit is as follows:

In Millions	Carrying Value	
	of Intangible Asset	Excess Fair Value as of Fiscal 2018 Test Date
<i>Yoki</i>	\$ 138.2	1%
<i>Progresso</i>	462.1	6%
Latin America	\$ 272.0	21%

In addition, while having significant coverage as of our fiscal 2018 assessment date, the *Food Should Taste Good* and *Green Giant* brand intangible assets and the U.S. Yogurt reporting unit had risk of decreasing coverage. We will continue to monitor these businesses for potential impairment.

(5) Inventories

The components of inventories were as follows:

In Millions	Nov. 26,	May 28,
	2017	2017
Raw materials and packaging	\$ 400.7	\$ 395.4
Finished goods	1,211.6	1,224.3
Grain	118.9	73.0
Excess of FIFO over LIFO cost	(214.7)	(209.1)
Total	\$ 1,516.5	\$ 1,483.6

(6) Risk Management Activities

Many commodities we use in the production and distribution of our products are exposed to market price risks. We utilize derivatives to manage price risk for our principal ingredients and energy costs, including grains (oats, wheat, and corn), oils (principally soybean), dairy products, natural gas, and diesel fuel. Our primary objective when entering

into these derivative contracts is to achieve certainty with regard to the future price of commodities purchased for use in our supply chain. We manage our exposures through a combination of purchase orders, long-term contracts with suppliers, exchange-traded futures and options, and over-the-counter options and swaps. We offset our exposures based on current and projected market conditions and generally seek to acquire the inputs at as close to our planned cost as possible.

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

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

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Unallocated corporate items for the quarters ended November 26, 2017 and November 27, 2016 included:

In Millions	Quarter Ended		Six-Month Period Ended	
	Nov. 26, 2017	Nov. 27, 2016	Nov. 26, 2017	Nov. 27, 2016
Net gain (loss) on mark-to-market valuation of certain commodity positions	\$ (0.6)	\$ 3.0	\$ (8.4)	\$ (15.9)
Net loss on commodity positions reclassified from unallocated corporate items to segment operating profit	2.5	14.4	6.1	23.7
Net mark-to-market revaluation of certain grain inventories	2.6	11.7	8.6	4.7
Net mark-to-market valuation of certain commodity positions recognized in unallocated corporate items	\$ 4.5	\$ 29.1	\$ 6.3	\$ 12.5

As of November 26, 2017, the net notional value of commodity derivatives was \$96.9 million, of which \$36.6 million related to energy inputs and \$60.3 million related to agricultural inputs. These contracts relate to inputs that generally will be utilized within the next 12 months.

In advance of planned debt financing, in fiscal 2018, we entered into \$500.0 million of treasury locks due October 15, 2017 with an average fixed rate of 1.8 percent. All of these treasury locks were cash settled for \$3.7 million during the second quarter of fiscal 2018, concurrent with the issuance of our \$500.0 million 5-year fixed-rate notes.

In advance of planned debt financing, during the third quarter of fiscal 2016 and the first quarter of fiscal 2017, we entered into \$400.0 million and \$100.0 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.

The fair values of the derivative positions used in our risk management activities and other assets recorded at fair value were not material as of November 26, 2017, and were Level 1 or Level 2 assets and liabilities in the fair value hierarchy. We did not significantly change our valuation techniques from prior periods.

We offer certain suppliers access to third party services that allow them to view our scheduled payments online. The third party services also allow suppliers to finance advances on our scheduled payments at the sole discretion of the supplier and the third party. We have no economic interest in these financing arrangements and no direct relationship with the suppliers, the third parties, or any financial institutions concerning these services. All of our accounts payable remain as obligations to our suppliers as stated in our supplier agreements. As of November 26, 2017, \$873.5 million of our total accounts payable were payable to suppliers who utilize these third party services.

Table of Contents**(7) Debt**

The components of notes payable were as follows:

In Millions	Nov. 26, 2017	May 28, 2017
U.S. commercial paper	\$ 997.7	\$ 954.7
Financial institutions	300.3	279.4
Total	\$ 1,298.0	\$ 1,234.1

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

The following table details the fee-paid committed and uncommitted credit lines we had available as of November 26, 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	0.2
Total committed and uncommitted credit facilities	\$ 3.4	\$ 0.3

The credit facilities contain covenants, including a requirement to maintain a fixed charge coverage ratio of at least 2.5 times. We were in compliance with all credit facility covenants as of November 26, 2017.

Long-Term Debt

The fair values and carrying amounts of long-term debt, including the current portion, were \$8,735.5 million and \$8,428.8 million, respectively, as of November 26, 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.

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

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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.

Certain of our long-term debt agreements contain restrictive covenants. As of November 26, 2017, we were in compliance with all of these covenants.

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(8) Redeemable and Noncontrolling Interests

We have a 51 percent controlling interest in Yoplait SAS and a 50 percent interest in Yoplait Marques SNC and Liberté Marques Sàrl. Sodiaal International (Sodiaal) holds the remaining interests in each of the entities. On the acquisition date, we recorded the \$904.4 million fair value of Sodiaal's 49 percent euro-denominated interest in Yoplait SAS as a redeemable interest on our Consolidated Balance Sheets. Sodiaal has the ability to put all or a portion of its redeemable interest to us at fair value once per year, up to three times before December 2024. We adjust the value of the redeemable interest through additional paid-in capital on our Consolidated Balance Sheets quarterly to the redeemable interest's redemption value, which approximates its fair value. Yoplait SAS pays dividends annually if it meets certain financial metrics set forth in its shareholders' agreement. As of November 26, 2017, the redemption value of the euro-denominated redeemable interest was \$793.4 million.

A subsidiary of Yoplait SAS has an exclusive milk supply agreement for its European operations with Sodiaal through July 1, 2021. Net purchases totaled \$112.3 million for the six-month period ended November 26, 2017 and \$86.2 million for the six-month period ended November 27, 2016.

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

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

Our noncontrolling interests contain restrictive covenants. As of November 26, 2017, we were in compliance with all of these covenants.

Table of Contents**(9) Stockholders' Equity**

The following tables provide details of total comprehensive income:

In Millions	Quarter Ended Nov. 26, 2017					Quarter Ended Nov. 27, 2016				
	General Mills			Noncontrolling Interests		General Mills			Noncontrolling Interests	
	Pretax	Tax	Net	Net	Net	Pretax	Tax	Net	Net	Net
Net earnings, including earnings attributable to redeemable and noncontrolling interests			\$ 430.5	\$ 4.5	\$ 8.8			\$ 481.8	\$ 6.0	\$ 8.0
Other comprehensive income (loss):										
Foreign currency translation	\$ (43.3)	\$	(43.3)	0.6	0.7	\$ (49.6)	\$	(49.6)	(18.0)	(38.1)
Other fair value changes:										
Securities	0.9	(0.4)	0.5			(0.1)		(0.1)		
Hedge derivatives	3.5	(2.5)	1.0		(1.1)	48.5	(16.0)	32.5		(0.4)
Reclassification to earnings:										
Hedge derivatives (a)	2.5	(1.0)	1.5		(0.7)	(7.0)	0.2	(6.8)		(1.0)
Amortization of losses and prior service costs (b)	43.8	(15.9)	27.9			51.4	(19.6)	31.8		
Other comprehensive income (loss)	\$ 7.4	\$ (19.8)	(12.4)	0.6	(1.1)	\$ 43.2	\$ (35.4)	7.8	(18.0)	(39.5)
Total comprehensive income (loss)			\$ 418.1	\$ 5.1	\$ 7.7			\$ 489.6	\$ (12.0)	\$ (31.5)

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

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In Millions	Six-Month Period Ended Nov. 26, 2017					Six-Month Period Ended Nov. 27, 2016				
	General Mills		Noncontrolling Interests			General Mills		Noncontrolling Interests		
	Pretax	Tax	Net	Net	Net	Pretax	Tax	Net	Net	Net
Net earnings, including earnings attributable to redeemable and noncontrolling interests			\$ 835.2	\$ 6.0	\$ 11.2			\$ 890.8	\$ 7.8	\$ 16.7
Other comprehensive income (loss):										
Foreign currency translation	\$ (48.6)	\$	(48.6)	22.1	46.0	\$ 37.0	\$	37.0	(15.2)	(47.1)
Other fair value changes:										
Securities	1.3	(0.5)	0.8			0.5	(0.2)	0.3		
Hedge derivatives	(12.2)	2.7	(9.5)		0.6	58.7	(14.1)	44.6		2.7
Reclassification to earnings:										
Hedge derivatives (a)	3.3	(1.6)	1.7		(1.1)	(8.6)	(0.4)	(9.0)		(1.6)
Amortization of losses and prior service costs (b)	87.6	(31.9)	55.7			100.8	(38.4)	62.4		
Other comprehensive income (loss)	\$ 31.4	\$ (31.3)	0.1	22.1	45.5	\$ 188.4	\$ (53.1)	135.3	(15.2)	(46.0)
Total comprehensive income (loss)			\$ 835.3	\$ 28.1	\$ 56.7			\$ 1,026.1	\$ (7.4)	\$ (29.3)

(a) (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.

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

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

In Millions	Nov. 26, 2017	May 28, 2017
Foreign currency translation adjustments	\$ (673.3)	\$ (624.7)
Unrealized gain (loss) from:		
Securities	5.4	4.6
Hedge derivatives	(6.3)	1.5

Pension, other postretirement, and postemployment benefits:		
Net actuarial loss	(1,588.8)	(1,645.4)
Prior service credits	18.6	19.5
Accumulated other comprehensive loss	\$ (2,244.4)	\$ (2,244.5)

Table of Contents**(10) Stock Plans**

We have various stock-based compensation programs under which awards, including stock options, restricted stock, restricted stock units, and performance awards, may be granted to employees and non-employee directors. These programs and related accounting are described in Note 11 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 28, 2017, and Note 16 to the Consolidated Financial Statements in Part I, Item 1 of this report.

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

In Millions	Quarter Ended		Six-Month Period Ended	
	Nov. 26,	Nov. 27,	Nov. 26,	Nov. 27,
	2017	2016	2017	2016
Compensation expense related to stock-based payments	\$ 19.3	\$ 18.6	\$ 48.9	\$ 57.6

Compensation expense related to stock-based payments recognized in the Consolidated Statements of Earnings includes amounts recognized in restructuring, impairment, and other exit costs in fiscal 2017 and fiscal 2018.

As of November 26, 2017, unrecognized compensation expense related to non-vested stock options, restricted stock units, and performance share units was \$128.4 million. This expense will be recognized over 25 months, on average.

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

In Millions	Six-Month Period Ended	
	Nov. 26,	Nov. 27,
	2017	2016
Net cash proceeds	\$ 50.6	\$ 77.0
Intrinsic value of options exercised	\$ 46.0	\$ 131.9

We estimate the fair value of each stock option on the grant date using a Black-Scholes option-pricing model. Black-Scholes option-pricing models require us to make predictive assumptions regarding future stock price volatility, employee exercise behavior, and dividend yield. We estimate our future stock price volatility using the historical volatility over the expected term of the option, excluding time periods of volatility we believe a marketplace participant would exclude in estimating our stock price volatility. We also have considered, but did not use, implied volatility in our estimate, because trading activity in options on our stock, especially those with tenors of greater than 6 months, is insufficient to provide a reliable measure of expected volatility. Our method of selecting the other valuation assumptions is explained in Note 11 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 28, 2017.

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

	Six-Month Period Ended	
	Nov. 26, 2017	Nov. 27, 2016
Estimated fair values of stock options granted	\$ 6.18	\$ 8.80
Assumptions:		
Risk-free interest rate	2.2%	1.7%
Expected term	8.2 years	8.5 years
Expected volatility	15.8%	17.8%
Dividend yield	3.6%	2.9%

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Information on stock option activity follows:

	Options Outstanding (Thousands)	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (Millions)
Balance as of May 28, 2017	29,834.4	\$ 40.47		
Granted	2,816.7	55.52		
Exercised	(1,930.2)	31.13		
Forfeited or expired	(85.4)	58.11		
Outstanding as of Nov. 26, 2017	30,635.5	\$ 42.40	4.47	\$ 384.7
Exercisable as of Nov. 26, 2017	21,551.0	\$ 35.81	2.88	\$ 384.7

Information on restricted stock and performance share unit activity follows:

	Equity Classified Weighted- Share- Settled Units (Thousands)	Average Grant-Date Fair Value (Thousands)	Liability Classified Weighted- Share- Settled Units (Thousands)	Average Grant-Date Fair Value (Thousands)
Non-vested as of May 28, 2017	4,491.2	\$ 56.08	123.3	\$ 56.93
Granted	1,448.4	55.34	43.0	55.49
Vested	(1,509.5)	49.80	(35.8)	49.36
Forfeited	(330.0)	63.98	(8.2)	58.91
Non-vested as of Nov. 26, 2017	4,100.1	\$ 57.49	122.3	\$ 58.34

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

In Millions	Six-Month Period Ended	
	Nov. 26, 2017	Nov. 27, 2016
Total grant date fair value	\$ 77.0	\$ 59.6

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

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

In Millions, Except per Share Data	Quarter Ended		Six-Month Period Ended	
	Nov. 26, 2017	Nov. 27, 2016	Nov. 26, 2017	Nov. 27, 2016
Net earnings attributable to General Mills	\$ 430.5	\$ 481.8	\$ 835.2	\$ 890.8
Average number of common shares - basic EPS	571.3	588.8	574.0	594.4
Incremental share effect from: (a)				
Stock options	7.0	8.1	7.6	8.8
Restricted stock, restricted stock units, and other	2.0	2.8	2.0	2.8
Average number of common shares - diluted EPS	580.3	599.7	583.6	606.0
Earnings per share - basic	\$ 0.75	\$ 0.82	\$ 1.46	\$ 1.50
Earnings per share - diluted	\$ 0.74	\$ 0.80	\$ 1.43	\$ 1.47

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

In Millions	Quarter Ended		Six-Month Period Ended	
	Nov. 26, 2017	Nov. 27, 2016	Nov. 26, 2017	Nov. 27, 2016
Anti-dilutive stock options, restricted stock units, and performance share units	9.2	2.5	7.5	2.2

(12) Share Repurchases

Share repurchases were as follows:

In Millions	Quarter Ended		Six-Month Period Ended	
	Nov. 26, 2017	Nov. 27, 2016	Nov. 26, 2017	Nov. 27, 2016
Shares of common stock		14.9	10.9	20.5
Aggregate purchase price	\$ 0.2	\$ 950.2	\$ 600.5	\$ 1,349.9

(13) Statements of Cash Flows

Our Consolidated Statements of Cash Flows include the following:

In Millions	Six-Month Period Ended	
	Nov. 26, 2017	Nov. 27, 2016
Net cash interest payments	\$ 133.7	\$ 141.9
Net income tax payments	\$ 333.0	\$ 290.8

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

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.

Components of net periodic benefit expense are as follows:

In Millions	Defined Benefit Pension Plans		Other Postretirement Benefit Plans		Postemployment Benefit Plans	
	Quarter Ended		Quarter Ended		Quarter Ended	
	Nov. 26, 2017	Nov. 27, 2016	Nov. 26, 2017	Nov. 27, 2016	Nov. 26, 2017	Nov. 27, 2016
Service cost	\$ 25.7	\$ 30.0	\$ 2.9	\$ 3.1	\$ 2.2	\$ 2.2
Interest cost	54.5	54.1	7.6	7.9	0.5	0.7
Expected return on plan assets	(120.1)	(121.7)	(13.1)	(12.1)		
Amortization of losses	44.1	47.6	0.2	0.7	0.2	0.5
Amortization of prior service costs (credits)	0.5	0.6	(1.3)	(1.3)	0.1	0.1
Other adjustments		2.1		1.3	3.4	3.4
Settlement or curtailment losses		2.9		0.7		
Net expense (income)	\$ 4.7	\$ 15.6	\$ (3.7)	\$ 0.3	\$ 6.4	\$ 6.9

In Millions	Defined Benefit Pension Plans		Other Postretirement Benefit Plans		Postemployment Benefit Plans	
	Six-Month Period Ended		Six-Month Period Ended		Six-Month Period Ended	
	Nov. 26, 2017	Nov. 27, 2016	Nov. 26, 2017	Nov. 27, 2016	Nov. 26, 2017	Nov. 27, 2016
Service cost	\$ 51.4	\$ 60.0	\$ 5.8	\$ 6.2	\$ 4.3	\$ 4.4
Interest cost	108.9	108.3	15.2	16.0	1.1	1.4
Expected return on plan assets	(240.0)	(243.5)	(26.1)	(24.2)		
Amortization of losses	88.2	95.0	0.4	1.3	0.4	0.9
Amortization of prior service costs (credits)	1.0	1.2	(2.7)	(2.6)	0.3	0.3
Other adjustments		2.1		1.3	6.8	6.8
Settlement or curtailment losses		4.4		0.7		
Net expense (income)	\$ 9.5	\$ 27.5	\$ (7.4)	\$ (1.3)	\$ 12.9	\$ 13.8

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(15) Business Segment 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. This global reorganization required us to reevaluate our operating segments. Under our new organization structure, our chief operating decision maker assesses performance and makes decisions about resources to be allocated to our 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 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. The segment reflects business with a wide variety of grocery stores, mass merchandisers, membership stores, natural food chains, drug, dollar and discount chains, and e-commerce grocery providers. Our product categories in this business segment are ready-to-eat cereals, refrigerated yogurt, soup, meal kits, refrigerated and frozen dough products, dessert and baking mixes, frozen pizza and pizza snacks, grain, fruit and savory snacks, and a wide variety of organic products including refrigerated yogurt, nutrition bars, meal kits, salty snacks, ready-to-eat cereal, and grain snacks.

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

Our Convenience Stores & Foodservice operating segment was unchanged. Our major product categories in this segment are ready-to-eat cereals, snacks, refrigerated yogurt, frozen meals, unbaked and fully baked frozen dough products, and baking mixes. Many products we sell are branded to the consumer and nearly all are branded to our customers. We sell to distributors and operators in many customer channels including foodservice, convenience stores, vending, and supermarket bakeries in the United States.

Our Asia & Latin America operating segment consists of our former Asia/Pacific and Latin America regions. The segment consists of retail and foodservice businesses in the greater Asia and South America regions. Our product categories include super-premium ice cream and frozen desserts, refrigerated and frozen dough products, dessert and baking mixes, meal kits, salty and grain snacks, wellness beverages, and refrigerated yogurt. We also sell super-premium ice cream and frozen desserts directly to consumers through owned retail shops. Our Asia & Latin America segment also includes products manufactured in the United States for export, mainly to Caribbean and Latin American markets, as well as products we manufacture for sale to our international joint ventures. Revenues from export activities are reported in the region or country where the end customer is located.

Operating profit for these segments excludes unallocated corporate items, gain or loss on divestitures, and restructuring, impairment, and other exit costs. Unallocated corporate items include corporate overhead expenses, variances to planned domestic employee benefits and incentives, contributions to the General Mills Foundation, 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.

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Our operating segment results were as follows:

In Millions	Quarter Ended		Six-Month Period Ended	
	Nov. 26,	Nov. 27,	Nov. 26,	Nov. 27,
	2017	2016	2017	2016
Net sales:				
North America Retail	\$ 2,771.8	\$ 2,748.8	\$ 5,210.0	\$ 5,305.8
Convenience Stores & Foodservice	512.2	487.5	959.3	933.8
Europe & Australia	466.7	435.1	958.6	913.5
Asia & Latin America	448.0	440.7	840.0	866.9
Total	\$ 4,198.7	\$ 4,112.1	\$ 7,967.9	\$ 8,020.0
Operating profit:				
North America Retail	\$ 622.9	\$ 651.0	\$ 1,156.1	\$ 1,279.2
Convenience Stores & Foodservice	106.5	109.1	191.3	201.8
Europe & Australia	26.9	41.3	57.5	85.2
Asia & Latin America	16.7	29.0	32.2	51.3
Total segment operating profit	773.0	830.4	1,437.1	1,617.5
Unallocated corporate items	41.6	19.0	74.7	101.4
Divestiture loss		13.5		13.5
Restructuring, impairment, and other exit costs	1.6	29.0	6.8	87.9
Operating profit	\$ 729.8	\$ 768.9	\$ 1,355.6	\$ 1,414.7

(16) New Accounting Pronouncements

In the first quarter of fiscal 2018, we adopted new requirements for the accounting and presentation of stock-based payments. The adoption of this guidance resulted in the prospective recognition of realized windfall and shortfall tax benefits related to the exercise or vesting of stock-based awards in our Consolidated Statements of Earnings instead of additional paid-in capital within our Consolidated Balance Sheets. We recognized a windfall tax benefit in income tax expense in our Consolidated Statements of Earnings of \$2.5 million in the second quarter of fiscal 2018 and \$20.2 million in the six-month period ended November 26, 2017. We retrospectively adopted the guidance related to reclassification of realized windfall tax benefits in our Consolidated Statements of Cash Flows. This resulted in reclassifications of \$20.2 million and \$59.7 million of cash provided by financing activities to operating activities for the six-month periods ended November 26, 2017 and November 27, 2016, respectively. Additionally, we retrospectively adopted the guidance related to reclassification of employee tax withholdings in our Consolidated Statements of Cash Flows. This resulted in reclassifications of \$21.4 million and \$31.4 million of cash used by operating activities to financing activities for the six-month periods ended November 26, 2017 and November 27, 2016, respectively. Stock-based compensation expense continues to reflect estimated forfeitures.

In the first quarter of fiscal 2018, we adopted new accounting requirements which permit reporting entities to measure a goodwill impairment loss by the amount by which a reporting unit's carrying value exceeds the reporting unit's fair value. Previously, goodwill impairment losses were required to be measured by determining the implied fair value of goodwill. Our annual goodwill impairment test was performed as of the first day of the second quarter of fiscal 2018 and the adoption of this guidance did not impact our results of operations or financial position.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

INTRODUCTION

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the MD&A included in our Annual Report on Form 10-K for the fiscal year ended May 28, 2017 for important background regarding, among other things, our key business drivers. Significant trademarks and service marks used in our business are set forth in *italics* herein. Certain terms used throughout this report are defined in the Glossary section below.

CONSOLIDATED RESULTS OF OPERATIONS**Second Quarter Results**

In the second quarter of fiscal 2018, net sales increased 2 percent compared to the same period last year, driven by favorable foreign currency exchange and favorable net price realization and mix. Increased contributions from volume growth in the North America Retail, Convenience Stores & Foodservice and Europe & Australia segments were partially offset by lower contributions from volume growth in the Asia & Latin America segment. In the second quarter, increased sales from innovation, higher brand-building investment, and more effective merchandising contributed to organic net sales growth of 1 percent and market share gains in the majority of our key global platforms. Operating profit margin of 17.4 percent was down 130 basis points from year-ago levels primarily driven by lower segment operating profit results and lower mark-to-market valuation of certain commodity positions, partially offset by a decrease in restructuring expenses. Adjusted operating profit margin decreased 220 basis points to 17.4 percent, primarily driven by higher input costs including currency-driven inflation on imported products in certain markets, unfavorable trade expense phasing and higher media and advertising expense, partially offset by benefits from cost savings initiatives. Diluted earnings per share of \$0.74 decreased 8 percent compared to the second quarter of fiscal 2017 and adjusted diluted earnings per share of \$0.82, which excludes certain items affecting comparability, on a constant-currency basis decreased 5 percent compared to the second quarter last year (see the Non-GAAP Measures section below for a description of our use of measures not defined by GAAP).

A summary of our consolidated financial results for the second quarter of fiscal 2018 follows:

Quarter Ended Nov. 26, 2017	Quarter Ended		Percent of Net Sales	Constant-Currency Growth (a)
	In millions, except per share	Nov. 26, 2017 vs. Nov. 27, 2016		
Net sales	\$ 4,198.7	2%		
Operating profit	729.8	(5)%	17.4%	
Net earnings attributable to General Mills	430.5	(11)%		
Diluted earnings per share	\$ 0.74	(8)%		
Organic net sales growth rate (a)		1%		
Total segment operating profit (a)	773.0	(7)%		(8)%
Adjusted operating profit margin (a)			17.4%	
Diluted earnings per share,	\$ 0.82	(4)%		(5)%

excluding certain items affecting comparability (a)

(a) See the Non-GAAP Measures section below for our use of measures not defined by GAAP. Consolidated **net sales** were as follows:

	Nov. 26, 2017	Quarter Ended Nov. 26, 2017 vs Nov. 27, 2016	Nov. 27, 2016
Net sales (in millions)	\$ 4,198.7	2%	\$ 4,112.1
Contributions from volume growth (a)		Flat	
Net price realization and mix		1pt	
Foreign currency exchange		1pt	

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

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The 2 percent increase in net sales in the second quarter of fiscal 2018 was primarily driven by favorable foreign currency exchange and favorable net price realization and mix. All four segments contributed to the increase in net sales in the second quarter of fiscal 2018 compared to the same period last year.

Organic net sales increased 1 percent in the second quarter of fiscal 2018 primarily driven by favorable organic 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:

Quarter Ended Nov. 26, 2017 vs.**Quarter Ended Nov. 27, 2016**

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

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

Cost of sales increased \$163 million from the second quarter of fiscal 2017 to \$2,756 million. The increase included a \$148 million increase attributable to product rate and mix and a \$9 million increase attributable to higher volume. We recorded a \$4 million net decrease in cost of sales related to the mark-to-market valuation of certain commodity positions and grain inventories in the second quarter of fiscal 2018 compared to a net decrease of \$29 million in the second quarter of fiscal 2017. We recorded \$1 million of restructuring charges in cost of sales in the second quarter of fiscal 2018 compared to \$13 million in the same period last year. We also recorded \$4 million of restructuring initiative project-related costs in the second quarter of fiscal 2018 compared to \$11 million in the same period last year (please refer to Note 3 to the Consolidated Financial Statements in Part I, Item 1 of this report).

Selling, general, and administrative (SG&A) expenses increased \$4 million to \$712 million in the second quarter of fiscal 2018 compared to the same period in fiscal 2017. The increase in SG&A expenses primarily reflects a 7 percentage point increase in media and advertising expense partially offset by savings from cost management initiatives. SG&A expenses as a percent of net sales in the second quarter of fiscal 2018 decreased 30 basis points compared with the second quarter of fiscal 2017.

Divestiture Loss totaled \$14 million from the sale of our Martel, Ohio manufacturing facility during the second quarter of fiscal 2017.

Restructuring, impairment, and other exit costs totaled \$2 million in the second quarter of fiscal 2018 compared to \$29 million in the same period last year.

Total charges associated with our current restructuring initiatives were as follows:

In Millions	Quarter Ended			
	Nov. 26, 2017		Nov. 27, 2016	
	Charge	Cash	Charge	Cash
Global reorganization	\$ 0.6	\$ 11.1	\$	\$
Closure of Melbourne, Australia plant	2.8	2.6	12.0	
Restructuring of certain international product lines			6.9	7.1
Closure of Vineland, New Jersey plant	(1.3)	(9.1)	7.0	1.2
Project Compass		0.6		3.7
Project Century	0.1	(5.0)	15.9	13.0
Project Catalyst				0.9
Combination of certain operational facilities		0.2		1.5
Total restructuring charges (a)	2.2	0.4	41.8	27.4
Project-related costs	4.2	2.3	11.1	11.9
Restructuring charges and project-related costs	\$ 6.4	\$ 2.7	\$ 52.9	\$ 39.3

(a) Includes \$0.6 million of restructuring charges recorded in cost of sales in the second quarter of fiscal 2018 and \$12.8 million in the second quarter of fiscal 2017.

For further information on these restructuring initiatives, please refer to Note 3 to the Consolidated Financial Statements in Part 1, Item 1 of this report.

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Interest, net for the second quarter of fiscal 2018 totaled \$75 million, down \$1 million from fiscal 2017, driven primarily by lower rates and changes in the mix of debt, partially offset by higher average debt balances.

The **effective tax rate** for the second quarter of fiscal 2018 was 35.9 percent compared to 32.8 percent for the second quarter of fiscal 2017. The 3.1 percentage point increase was primarily due to a \$42 million prior year adjustment recorded in the second quarter of fiscal 2018 (see Note 1 to the Consolidated Financial Statements in Part 1, Item 1 of this report), partially offset by favorable impacts from certain changes in French tax law and the prospective adoption of the new accounting standard related to windfall tax benefits from stock-based payments (see Note 16 to the Consolidated Financial Statements in Part 1, Item 1 of this report). Our effective tax rate excluding certain items affecting comparability was 29.3 percent in the quarter ended November 26, 2017 compared to 32.4 percent in the same period last year (see the **Non-GAAP Measures** section below for a description of our use of measures not defined by GAAP).

The United States Congress is currently working on enacting a tax reform bill, which would result in significant changes to the U.S. tax system. We expect that if a bill is enacted, it could have a material impact on our Consolidated Financial Statements in future periods. We continue to monitor developments and assess the impact to General Mills.

After-tax earnings from joint ventures decreased \$6 million to \$24 million for the second quarter of fiscal 2018 compared to the same period last fiscal year, primarily driven by lower volume and higher input costs for Cereal Partners Worldwide (CPW) and unfavorable foreign currency exchange and unfavorable product mix for Häagen-Dazs Japan, Inc. (HDJ). On a constant-currency basis, after-tax earnings from joint ventures decreased 19 percent (see the **Non-GAAP Measures** section below for a description of our use of measures not defined by GAAP). The components of our joint ventures' net sales growth are shown in the following table:

Quarter Ended Nov. 26, 2017 vs.

Quarter Ended Nov. 27, 2016	CPW	HDJ
Contributions from volume growth (a)	(2)pts	(1)pt
Net price realization and mix	Flat	(2)pts
Foreign currency exchange	4pts	(7)pts
Net sales growth	2pts	(10)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:

Quarter Ended Nov. 26, 2017			
	Impact of Foreign	Percentage Change in Joint	
	Percentage Change in Joint	Currency	Venture Net Sales on Constant-
	Venture Net Sales as Reported	Exchange	Currency Basis
CPW	2%	4pts	(2)%
HDJ	(10)%	(7)pts	(3)%
Joint Ventures	(1)%	1pt	(2)%

Average diluted shares outstanding decreased by 19 million in the second quarter of fiscal 2018 from the same period a year ago due to the impact of share repurchases, partially offset by option exercises.

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In the six-month period ended November 26, 2017, net sales declined 1 percent, primarily driven by declining contributions from volume growth in the North America Retail and Asia & Latin America segments partially offset by increasing contributions from volume growth in the Convenience Stores & Foodservice segment. Increased sales from innovation, higher brand-building investment, and more effective merchandising contributed to an improvement in organic net sales trends versus the same period a year ago as well as market share gains in the majority of our key global platforms. Operating profit margin of 17.0 percent was down 60 basis points from year-ago levels primarily driven by lower segment operating profit results and lower mark-to-market valuation of certain commodity positions, partially offset by a decrease in restructuring expenses. Adjusted operating profit margin decreased 220 basis points to 17.2 percent, primarily driven by higher input costs including currency-driven inflation on imported products in certain markets, and unfavorable trade expense phasing. Diluted earnings per share of \$1.43 decreased 3 percent compared to the six-month period ended November 27, 2016, and adjusted diluted earnings per share, which excludes certain items affecting comparability, on a constant-currency basis decreased 7 percent compared to the same period a year ago (see the **Non-GAAP Measures** section below for a description of our use of measures not defined by GAAP).

A summary of our consolidated financial results for the six-month period ended November 26, 2017, follows:

	Six-Month			
	Period Ended			
	Nov. 26, 2017		Constant-	
	In millions, excepts. Nov. 27, Percent of Net Currency			
Six-Month Period Ended Nov. 26, 2017	per share	2016	Sales	Growth (a)
Net sales	\$ 7,967.9	(1)%		
Operating profit	1,355.6	(4)%	17.0%	
Net earnings attributable to General Mills	835.2	(6)%		
Diluted earnings per share	\$ 1.43	(3)%		
Organic net sales growth rate (a)		(1)%		
Total segment operating profit (a)	1,437.1	(11)%		(12)%
Adjusted operating profit margin (a)			17.2%	
Diluted earnings per share, excluding certain items affecting comparability (a)	\$ 1.53	(6)%		(7)%

(a) See the **Non-GAAP Measures** section below for our use of measures not defined by GAAP. Consolidated **net sales** were as follows:

Six-Month Period Ended

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	Nov. 26, 2017	Nov. 26, 2017 vs Nov. 27, 2016	Nov. 27, 2016
Net sales (in millions)	\$ 7,967.9	(1)%	\$ 8,020.0
Contributions from volume growth (a)		(1)pt	
Net price realization and mix		Flat	
Foreign currency exchange		Flat	

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

The 1 percent decline in net sales for the six-month period ended November 26, 2017 primarily reflects lower organic net sales.

Organic net sales declined 1 percent in the six-month period ended November 26, 2017, driven by declining contributions from organic volume growth in the North America Retail and Asia & Latin America segments partially offset by increasing contributions from organic volume growth in the Convenience Stores & Foodservice segment. 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.

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

Six-Month Period Ended Nov. 26, 2017 vs.**Six-Month Period Ended Nov. 27, 2016**

Contributions from organic volume growth (a)	(1)pt
Organic net price realization and mix	Flat
Organic net sales growth	(1)pt
Foreign currency exchange	Flat
Acquisitions and divestitures	Flat
Net sales growth	(1)pt

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

Cost of sales increased \$131 million from the six-month period ended November 27, 2016, to \$5,215 million. The increase included a \$240 increase attributable to product rate and mix partially offset by an \$82 million decrease attributable to lower volume. We recorded \$13 million of restructuring charges in cost of sales in the six-month period ended November 26, 2017, compared to \$26 million in the same period last year. We also recorded \$5 million of restructuring initiative project-related costs in the six-month period ended November 26, 2017, compared to \$25 million in the same period last year (please refer to Note 3 to the Consolidated Financial Statements in Part I, Item 1 of this report). We recorded a \$6 million net decrease in cost of sales related to the mark-to-market valuation of certain commodity positions and grain inventories in the six-month period ended November 26, 2017, compared to a net decrease of \$12 million in the six-month period ended November 27, 2016.

SG&A expenses decreased \$29 million to \$1,391 million in the six-month period ended November 26, 2017, compared to the same period in fiscal 2017. The decrease in SG&A expenses primarily reflects savings from cost management initiatives partially offset by a 4 percentage point increase in media and advertising expense. SG&A expenses as a percent of net sales in the six-month period ended November 26, 2017 decreased 30 basis points compared with the same period of fiscal 2017.

Divestiture loss totaled \$14 million from the sale of our Martel, Ohio manufacturing facility during the second quarter of fiscal 2017.

Restructuring, impairment, and other exit costs totaled \$7 million in the six-month period ended November 26, 2017, compared to \$88 million in the same period last year.

Total charges associated with our restructuring initiatives consisted of the following:

**As Reported
Fiscal 2017, 2016 and**

In Millions	Six-Month Period Ended		2015		Estimated				Savings (b)	
	Nov. 26, 2017	Nov. 27, 2016	Total	Total	Future	Total				
	Charge	Cash	Charge	Cash	Charge	Cash	Charge	Cash		
Global reorganization	\$ 1.4	\$ 26.7	\$	\$	\$ 72.1	\$ 20.0	\$ 2	\$ 29	\$ 76	\$ 76

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Closure of Melbourne, Australia plant	4.9	3.4	12.0		21.9	1.6	7	(2)	34	3	
Restructuring of certain international product lines			43.3	10.4	45.1	10.3	(3)	(10)	42		
Closure of Vineland, New Jersey plant	12.1	(3.1)	27.9	1.2	41.4	7.3	1	7	54	11	
Project Compass	(0.2)	3.0	1.0	8.0	54.3	48.9		2	54	54	
Project Century	1.5	(3.4)	30.1	20.6	408.4	95.5	4	51	414	143	
Project Catalyst				0.5	140.9	94.1			141	94	
Combination of certain operational facilities		0.5		2.6	13.3	16.3	2	(3)	15	14	
Total restructuring charges (a)	19.7	27.1	114.3	43.3	797.4	294.0	13	74	830	395	
Project-related costs	5.4	5.0	24.9	28.6	114.6	111.1	8	14	128	130	
Restructuring charges and project-related costs	\$ 25.1	\$ 32.1	\$ 139.2	\$ 71.9	\$ 912.0	\$ 405.1	\$ 21	\$ 88	\$ 958	\$ 525	\$ 700

(a) Includes \$12.9 million of restructuring charges recorded in cost of sales during fiscal 2018 and \$26.4 million in fiscal 2017.

(b) Cumulative annual savings versus fiscal 2015 base targeted by fiscal 2018. Includes savings from SG&A cost reduction projects.

For further information on these restructuring initiatives, please refer to Note 3 to the Consolidated Financial Statements in Part 1, Item 1 of this report.

Interest, net for the six-month period ended November 26, 2017, decreased \$2 million to \$147 million compared to the same period of fiscal 2017, primarily driven by lower rates and changes in the mix of debt, partially offset by higher average debt balances.

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The **effective tax rate** for the six-month period ended November 26, 2017, was 33.4 percent compared to 31.9 percent for the six-month period ended November 27, 2016. The 1.5 percentage point increase was primarily due to a \$42 million prior year adjustment recorded in the second quarter of fiscal 2018 (see Note 1 to the Consolidated Financial Statements in Part 1, Item 1 of this report), partially offset by the prospective adoption of the new accounting standard related to windfall tax benefits from stock-based payments (see Note 16 to the Consolidated Financial Statements in Part 1, Item 1 of this report). Our effective tax rate excluding certain items affecting comparability was 29.9 percent in the six-month period ended November 26, 2017, compared to 31.9 percent in the same period last year (see the **Non-GAAP Measures** section below for a description of our use of measures not defined by GAAP).

The United States Congress is currently working on enacting a tax reform bill, which would result in significant changes to the U.S. tax system. We expect that if a bill is enacted, it could have a material impact on our Consolidated Financial Statements in future periods. We continue to monitor developments and assess the impact to General Mills.

After-tax earnings from joint ventures decreased \$6 million to \$48 million for the six-month period ended November 26, 2017, compared to the same period in fiscal 2017, primarily driven by higher input costs partially offset by favorable foreign currency exchange for CPW, and unfavorable foreign currency exchange and higher input costs partially offset by favorable product mix for HDJ. On a constant-currency basis, after-tax earnings from joint ventures decreased 11 percent (see the **Non-GAAP Measures** section below for a description of our use of measures not defined by GAAP). The components of our joint ventures' net sales growth are shown in the following table:

Six-month Period Ended November 26, 2017 vs.

Six-month Period Ended November 27, 2016	CPW	HDJ
Contributions from volume growth (a)	Flat	5pts
Net price realization and mix	Flat	(1)pt
Foreign currency exchange	3pts	(7)pts
Net sales growth	3pts	(3)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:

Six-Month Period Ended November 26, 2017
Impact of Foreign Currency Exchange on Joint

Percentage Change in Joint Venture Net Sales on Constant-

	Venture Net Sales as Reported	Exchange	Currency Basis
CPW	3%	3pts	Flat
HDJ	(3)%	(7)pts	4%
Joint Ventures	2%	1pt	1%

Average diluted shares outstanding decreased by 22 million in the six-month period ended November 26, 2017, compared to the same period a year ago due to the impact of share repurchases, partially offset by option exercises.

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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 are reporting 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 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. Our Convenience Stores & Foodservice operating segment was unchanged. For further information on our operating segments, please refer to Note 15 to the Consolidated Financial Statements in Part 1, Item 1 of this report.

North America Retail Segment Results

North America Retail net sales were as follows:

	Quarter Ended			Six-Month Period Ended		
	Nov. 26, 2017	Nov. 26, 2017 vs Nov. 27, 2016	Nov. 27, 2016	Nov. 26, 2017	Nov. 26, 2017 vs Nov. 27, 2016	Nov. 27, 2016
Net sales (in millions)	\$ 2,771.8	1%	\$ 2,748.8	\$ 5,210.0	(2)%	\$ 5,305.8
Contributions from volume growth (a)		1pt			(1)pt	
Net price realization and mix		(1)pt			(1)pt	
Foreign currency exchange		1pt			Flat	

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

The 1 percent increase in North America Retail net sales in the second quarter of fiscal 2018 was driven by growth in the U.S. Cereal, Canada and U.S. Snacks operating units partially offset by declines in the U.S. Yogurt and U.S. Meals & Baking operating units.

The 2 percent decrease in net sales for the six-month period ended November 26, 2017, was driven by declines in the U.S. Yogurt and U.S. Meals & Baking operating units partially offset by growth in the Canada and U.S. Snacks operating units.

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

Quarter Ended	Six-Month Period Ended
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	Nov. 26, 2017	Nov. 26, 2017
Contributions from organic volume growth (a)	1pt	(1)pt
Organic net price realization and mix	(1)pt	(1)pt
Organic net sales growth	Flat	(2)pts
Foreign currency exchange	1pt	Flat
Net sales growth	1pt	(2)pts

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

North America Retail organic net sales were flat in the three-month period ended November 26, 2017, compared to the same period in fiscal 2017.

North America Retail organic net sales decreased 2 percentage points in the six-month period ended November 26, 2017, compared to the same period in fiscal 2017, driven primarily by volume declines in the U.S. Yogurt operating unit partially offset by increases in the U.S. Snacks and U.S. Cereal operating units, and increased trade expense.

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

	Quarter Ended Nov. 26, 2017	Six-Month Period Ended Nov. 26, 2017
U.S. Cereal	7%	Flat
Canada (a)	7	3
U.S. Snacks	5	1
U.S. Meals & Baking	(2)	(1)
U.S. Yogurt	(11)	(17)
Total	1%	(2)%

(a) On a constant currency basis, Canada net sales increased 1 percent for the quarter ended November 26, 2017 and decreased 1 percent for the six-month period ended November 26, 2017. See the Non-GAAP Measures section below for our use of this measure not defined by GAAP.

Segment operating profit decreased 4 percent to \$623 million in the second quarter of fiscal 2018 compared to \$651 million in the same period of fiscal 2017, driven primarily by unfavorable trade expense phasing and higher input costs. Segment operating profit decreased 5 percent on a constant-currency basis in the second quarter of fiscal 2018 compared to the second quarter of fiscal 2017 (see the Non-GAAP Measures section below for our use of this measure not defined by GAAP).

Segment operating profit decreased 10 percent to \$1,156 million in the six-months ended November 26, 2017, compared to \$1,279 million in the same period of fiscal 2017, driven primarily by lower net sales, including unfavorable trade expense phasing and higher input costs. Segment operating profit decreased 10 percent on a constant-currency basis in the first six months of fiscal 2018 compared to the first six months of fiscal 2017 (see the Non-GAAP Measures section below for our use of this measure not defined by GAAP).

Convenience Stores & Foodservice Segment Results

Convenience Stores & Foodservice net sales were as follows:

	Quarter Ended			Six-Month		
	Nov. 26, 2017	Nov. 26, 2017 vs	Nov. 27, 2016	Nov. 26, 2017	Nov. 26, 2017 vs	Nov. 27, 2016
	2017	Nov. 27, 2016	2016	2017	Nov. 27, 2016	2016
Net sales (in millions)	\$ 512.2	5%	\$ 487.5	\$ 959.3	3%	\$ 933.8
Contributions from volume growth (a)		3pts			2pts	
Net price realization and mix		2pts			1pt	

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

Convenience Stores & Foodservice net sales increased 5 percent for the second quarter of fiscal 2018, reflecting higher net sales across Focus 6 categories and benefits from market index pricing on bakery flour.

Convenience Stores & Foodservice net sales increased 3 percent for the six-month period ended November 26, 2017, reflecting higher net sales across Focus 6 categories and benefits from market index pricing on bakery flour.

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

	Quarter Ended Nov. 26, 2017	Six-Month Period Ended Nov. 26, 2017
Contributions from organic volume growth (a)	3 pts	2 pts
Organic net price realization and mix	2 pts	1 pt
Organic net sales growth	5 pts	3 pts
Net sales growth	5 pts	3 pts

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

Segment operating profit declined 2 percent to \$106 million in the second quarter of fiscal 2018 compared to \$109 million in the second quarter of fiscal 2017, primarily driven by higher input costs, partially offset by higher net sales.

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Segment operating profit decreased 5 percent to \$191 million for the six-month period ended November 26, 2017, compared to \$202 million in the same period of fiscal 2017, primarily driven by higher input costs, partially offset by higher net sales.

Europe & Australia Segment Results

Europe & Australia net sales were as follows:

	Quarter Ended		Six-Month Period Ended				
	Nov. 26, 2017	Nov. 27, 2016	Nov. 26, 2017 vs. Nov. 27, 2016	Nov. 26, 2017	Nov. 27, 2016	Nov. 26, 2017 vs. Nov. 27, 2016	
Net sales (in millions)	\$ 466.7		7%	\$ 435.1	\$ 958.6	5%	\$ 913.5
Contributions from volume growth (a)			1pt				Flat
Net price realization and mix			Flat				2pts
Foreign currency exchange			6pts				3pts

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

The 7 percent increase in Europe & Australia net sales in the second quarter of fiscal 2018 was driven by favorable foreign currency exchange and higher net sales in the U.K. market.

The 5 percent increase in Europe & Australia net sales in the six-month period ended November 26, 2017, was driven by favorable foreign currency exchange and higher net sales in the U.K. market.

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

	Quarter Ended	Six-Month Period Ended
	Nov. 26, 2017	Nov. 26, 2017
Contributions from organic volume growth (a)	1pt	Flat
Organic net price realization and mix	Flat	2pts
Organic net sales growth	1pt	2pts
Foreign currency exchange	6pts	3pts
Net sales growth	7pts	5pts

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

The 1 percent increase in Europe & Australia organic net sales growth in the second quarter of fiscal 2018 was driven by favorable contributions from organic volume growth.

The 2 percent increase in Europe & Australia organic net sales growth in the six-month period ended November 26, 2017 was driven by favorable organic net price realization and mix.

Segment operating profit decreased 35 percent to \$27 million in the second quarter of fiscal 2018 compared to \$41 million in the same period of fiscal 2017 primarily driven by input cost inflation, including currency-driven inflation on imported products in certain markets. Europe & Australia segment operating profit decreased 40 percent on a constant-currency basis in the second quarter of fiscal 2018 compared to the second quarter of fiscal 2017 (see the Non-GAAP Measures section below for our use of this measure not defined by GAAP).

Segment operating profit decreased 32 percent to \$58 million in the six-month period ended November 26, 2017, compared to \$85 million in the same period of fiscal 2017 primarily driven by input cost inflation, including currency-driven inflation on imported products in certain markets. Europe & Australia segment operating profit decreased 35 percent on a constant-currency basis in the six-month period ended November 26, 2017, compared to the same period of fiscal 2017 (see the Non-GAAP Measures section below for our use of this measure not defined by GAAP).

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Asia & Latin America net sales were as follows:

	Quarter Ended		Six-Month Period Ended			
	Nov. 26, 2017	Nov. 26, 2017 vs. Nov. 27, 2016	Nov. 27, 2016	Nov. 26, 2017	Nov. 26, 2017 vs. Nov. 27, 2016	Nov. 27, 2016
	Net sales (in millions)	\$ 448.0	2%	\$ 440.7	\$ 840.0	(3)%
Contributions from volume growth (a)		(7)pts			(12)pts	
Net price realization and mix		7pts			8pts	
Foreign currency exchange		2pts			1pt	

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

Asia & Latin America net sales increased 2 percent in the second quarter of fiscal 2018 compared to the same period in the prior year, with higher net sales across Asia markets partially offset by lower net sales across Latin America markets.

Asia & Latin America net sales declined 3 percent in the six-month period ended November 26, 2017, compared to the same period of fiscal 2017, which reflects lower net sales in Latin America markets due to the shift in reporting period in fiscal 2017 and challenges related to an enterprise reporting system implementation at our General Mills Brasil Alimentos Ltda subsidiary, partially offset by higher net sales in Asia markets.

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

	Quarter Ended	Six-Month Period Ended
	Nov. 26, 2017	Nov. 26, 2017
Contributions from organic volume growth (a)	(7)pts	(12)pts
Organic net price realization and mix	7pts	8pts
Organic net sales growth	Flat	(4)pts
Foreign currency exchange	2pts	1pt
Net sales growth	2pts	(3)pts

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

Asia & Latin America organic net sales were flat for the quarter ended November 26, 2017, reflecting a 7 percent decrease in contributions from organic volume growth offset by a 7 percent increase in organic net price realization and mix.

The 4 percent decrease in Asia & Latin America organic net sales for the six-month period ended November 26, 2017, was driven by a 12 percent decrease in contributions from organic volume growth, partially offset by an 8 percent increase in organic net price realization and mix.

Segment operating profit decreased 42 percent to \$17 million in the second quarter of fiscal 2018 compared to \$29 million in the same period of fiscal 2017 primarily driven by input cost inflation, including currency driven inflation on imported products in certain markets, and an increase in media and advertising expense. Asia & Latin America segment operating profit decreased 46 percent on a constant-currency basis in the second quarter of fiscal 2018 compared to the second quarter of fiscal 2017 (see the Non-GAAP Measures section below for our use of this measure not defined by GAAP).

Segment operating profit decreased 37 percent to \$32 million in the six-month period ended November 26, 2017, compared to \$51 million in the same period of fiscal 2017 primarily driven by input cost inflation, including currency driven inflation on imported products in certain markets. Asia & Latin America segment operating profit decreased 40 percent on a constant-currency basis in the first six months of fiscal 2018 compared to the first six months of fiscal 2017 (see the Non-GAAP Measures section below for our use of this measure not defined by GAAP).

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UNALLOCATED CORPORATE ITEMS

Unallocated corporate expense totaled \$42 million in the second quarter of fiscal 2018 compared to \$19 million in the same period in fiscal 2017. In the second quarter of fiscal 2018, we recorded \$1 million of restructuring charges and \$4 million of restructuring initiative project-related costs in cost of sales compared to \$13 million of restructuring charges and \$11 million of restructuring initiative project-related costs in cost of sales in the same period last year. In addition, we recorded a \$4 million net decrease in expense related to the mark-to-market valuation of certain commodity positions and grain inventories in the second quarter of fiscal 2018 compared to a \$29 million net decrease in expense in the same period last year.

Unallocated corporate expense totaled \$75 million in the six-month period ended November 26, 2017, compared to \$101 million in the same period last year. In the six-month period ended November 26, 2017, we recorded \$13 million of restructuring charges and \$5 million of restructuring initiative project-related costs in cost of sales compared to \$26 million of restructuring charges and \$25 million of restructuring initiative project-related costs in cost of sales in the same period last year. In addition, we recorded a \$6 million net decrease in expense related to the mark-to-market valuation of certain commodity positions and grain inventories in the six-month period ended November 26, 2017, compared to a \$12 million net decrease in expense in the same period a year ago.

LIQUIDITY

During the six-month period ended November 26, 2017, cash provided by operations was \$1,567 million compared to \$1,079 million in the same period last year. The \$488 million increase is primarily driven by a \$703 million change in current assets and liabilities. The \$703 million change in current assets and liabilities is primarily due to changes in the timing of accounts payable, including the impact of extended payment terms, and changes in other current liabilities, which were largely driven by changes in trade and incentive accruals.

Cash used by investing activities during the six-month period ended November 26, 2017, was \$271 million, compared to cash used by investing activities of \$280 million in the same period in fiscal 2017. Investments of \$260 million in land, buildings and equipment in the six-month period ended November 26, 2017, decreased \$58 million compared to the same period a year ago. We received proceeds of \$18 million related to the sale of our Martel, Ohio facility in the second quarter of fiscal 2017. In addition, we received the final payment of \$13 million from Sodiaal International (Sodiaal) in the first six months of fiscal 2017 to fully repay the exchangeable note we purchased in fiscal 2012.

Cash used by financing activities during the six-month period ended November 26, 2017, was \$1,131 million compared to \$720 million in the same period last year. We had \$53 million of net debt issuances in the first six months of fiscal 2018 compared to \$1,164 million of net debt issuances in the same period a year ago. We paid \$600 million in cash to repurchase common stock and paid \$565 million of dividends in the first six-months of fiscal 2018 compared to \$1,350 million and \$576 million, respectively, in the same period last year.

As of November 26, 2017, we had \$898 million of cash and cash equivalents held in foreign jurisdictions which will be used to fund foreign operations and potential acquisitions. There is currently no need to repatriate these funds in order to meet domestic funding obligations or scheduled cash distributions. If we choose to repatriate historical earnings from foreign jurisdictions, we intend to do so only in a tax-neutral manner.

CAPITAL RESOURCES

Our capital structure was as follows:

In Millions	Nov. 26, 2017	May 28, 2017
Notes payable	\$ 1,298.0	\$ 1,234.1
Current portion of long-term debt	200.5	604.7
Long-term debt	8,228.3	7,642.9
Total debt	9,726.8	9,481.7
Redeemable interest	793.4	910.9
Noncontrolling interests	359.0	357.6
Stockholders' equity	4,230.7	4,327.9
Total capital	\$ 15,109.9	\$ 15,078.1

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

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The following table details the fee-paid committed and uncommitted credit lines we had available as of November 26, 2017:

In Billions	Facility Amount	Borrowed Amount
Credit facility expiring:		