

GENERAL MILLS INC
Form 10-K
July 13, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

- x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED May 31, 2009
- o 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
(IRS Employer
Identification No.)

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

55426
(Zip Code)

(763) 764-7600

(Registrant's telephone number, including area code)

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

| Title of each class | Name of each exchange on which registered |
|----------------------------|--|
|----------------------------|--|

| | |
|-------------------------------|-------------------------|
| Common Stock, \$.10 par value | New York Stock Exchange |
|-------------------------------|-------------------------|

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

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

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

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

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

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

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

Large accelerated filer Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

Aggregate market value of Common Stock held by non-affiliates of the registrant, based on the closing price of \$64.70 per share as reported on the New York Stock Exchange on November 21, 2008 (the last business day of the registrant's most recently completed second fiscal quarter): \$21,166.0 million.

Number of shares of Common Stock outstanding as of June 19, 2009: 325,415,936 (excluding 51,890,728 shares held in the treasury).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2009 Annual Meeting of Stockholders are incorporated by reference into Part III.

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PART I

ITEM 1 Business

COMPANY OVERVIEW

General Mills, Inc. is a leading global manufacturer and marketer of branded consumer foods sold through retail stores. We are also a leading supplier of branded and unbranded food products to the foodservice and commercial baking industries. We manufacture our products in 15 countries and market them in more than 100 countries. Our joint ventures manufacture and market products in more than 130 countries and republics worldwide.

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

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

PRINCIPAL PRODUCTS

Our major product categories in the United States are ready-to-eat cereals, refrigerated yogurt, ready-to-serve soup, dry dinners, shelf stable and frozen vegetables, 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 soup, granola bars, and cereal.

In Canada, our major product categories are ready-to-eat cereals, shelf stable and frozen vegetables, dry dinners, refrigerated and frozen dough products, dessert and baking mixes, frozen pizza snacks, and grain, fruit and savory snacks.

In markets outside the United States and Canada, our major product categories include super-premium ice cream and frozen desserts, grain snacks, shelf stable and frozen vegetables, refrigerated and frozen dough products, and dry dinners. In addition, we sell ready-to-eat cereals through our Cereal Partners Worldwide (CPW) joint venture.

TRADEMARKS AND PATENTS

Our products are marketed under trademarks and service marks that are owned by or licensed to us. The most significant trademarks and service marks used in our businesses are set forth in *italics* in this report. Some of the important trademarks used in our global operations include:

Ready-to-eat cereals

Cheerios, Wheaties, Lucky Charms, Total, Trix, Golden Grahams, Chex, Kix, Fiber One, Reese's Puffs, Cocoa Puffs, Cookie Crisp, Cinnamon Toast Crunch, Clusters, Oatmeal Crisp, and Basic 4

Refrigerated yogurt

Yoplait, Trix, Yoplait Kids, Go-GURT, Fiber One, YoPlus, Yoplait Whips!, and Colombo

Refrigerated and frozen dough products

Pillsbury, the Pillsbury Doughboy character, Grands!, Golden Layers, Big Deluxe, Toaster Strudel, Toaster Scrambles, Savorings, Jus-Rol, Latina, Wanchai Ferry, V.Pearl, and La Salteña

Dry dinners and shelf stable and frozen vegetable products

*Betty Crocker, Hamburger Helper, Tuna Helper, Chicken Helper, Old El Paso, Green Giant, Potato Buds, Suddenly Salad, Bac*O's, Betty Crocker Complete Meals, Valley Selections, Simply Steam, Wanchai Ferry, and Diablitos*

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Grain, fruit, and savory snacks

Nature Valley, Fiber One, Betty Crocker, Fruit Roll-Ups, Fruit By The Foot, Gushers, Stickerz, Chex Mix, Gardetto's, Bugles, and Lärabar

Dessert and baking mixes

Betty Crocker, SuperMoist, Warm Delights, Bisquick, and Gold Medal

Ready-to-serve soup

Progresso

Ice cream and frozen desserts

Häagen-Dazs

Frozen pizza and pizza snacks

Totino's, Jeni's, Pizza Rolls, Party Pizza, Pillsbury Pizza Pops, and Pillsbury Pizza Minis

Organic products

Cascadian Farm and Muir Glen

Trademarks are vital to our businesses. To protect our ownership and rights, we register our trademarks with the Patent and Trademark Office in the United States, and we file similar registrations in foreign jurisdictions. Trademark registrations in the United States are generally for a term of 10 years, renewable every 10 years as long as the trademark is used in the regular course of business.

Some of our products are marketed under or in combination with trademarks that have been licensed from others, including:

Yoplait for yogurt in the United States;

Dora the Explorer, Blue's Clues, Diego, Backyardigans, Wonder Pets, and iCarly for yogurt, *Dora the Explorer* for cereal, and various Nickelodeon characters for fruit snacks;

Curves and *Second Cup* for snack bars;

Reese's Puffs for cereal;

Hershey's chocolate for a variety of products;

Weight Watchers as an endorsement for soup and frozen vegetable products;

Best Life Diet for a variety of products;

Macaroni Grill for dry dinners;

Sunkist for baking products and fruit snacks;

Cinnabon for refrigerated dough, frozen pastries, and baking products;

Bailey's for super-premium ice cream; and

a variety of characters and brands for fruit snacks, including *Tonka, My Little Pony, Transformers, Care Bears, Teenage Mutant Ninja Turtles, Spider-Man*, and various Warner Bros. characters.

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We license all of our cereal trademarks to CPW, our joint venture with Nestlé S.A. (Nestlé). Nestlé similarly licenses certain of its trademarks to CPW, including the *Nestlé* and *Uncle Tobys* trademarks. We also license our *Green Giant* trademark to a third party for use in connection with its sale of fresh produce in the United States. We own the *Häagen-Dazs* trademark and have the right to use the trademark outside of the United States and Canada. Nestlé has an exclusive royalty-free license to use the *Häagen-Dazs* trademark in the United States and Canada on ice cream and other frozen dessert products. We also license this trademark to our joint venture in Japan. The J. M. Smucker Company holds an exclusive royalty-free license to use the *Pillsbury* brand and the *Pillsbury Doughboy* character in the dessert mix and baking mix categories in the United States and under limited circumstances in Canada and Mexico.

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

RAW MATERIALS AND SUPPLIES

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

RESEARCH AND DEVELOPMENT

Our principal research and development facilities are located in Minneapolis, Minnesota. Our research and development resources are focused on new product development, product improvement, process design and improvement, packaging, and exploratory research in new business and technology areas. Research and development expenditures were \$208 million in fiscal 2009, \$205 million in fiscal 2008, and \$191 million in fiscal 2007.

FINANCIAL INFORMATION ABOUT SEGMENTS

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

JOINT VENTURES

In addition to our consolidated operations, we participate in two joint ventures: CPW and a *Häagen-Dazs* ice cream joint venture in Japan. See MD&A in Item 7 of this report for a description of our joint ventures.

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CUSTOMERS

Our primary customers are grocery stores, mass merchandisers, membership stores, natural food chains, drug, dollar and discount chains, commercial and noncommercial foodservice distributors and operators, restaurants, and convenience stores. We generally sell to these customers through our direct sales force. We use broker and distribution arrangements for certain products or to serve certain types of customers.

During fiscal 2009, Wal-Mart Stores, Inc. and its affiliates (Wal-Mart) accounted for 21 percent of our consolidated net sales and 29 percent of our net sales in the U.S. Retail segment. No other customer accounted for 10 percent or more of our consolidated net sales. Wal-Mart also represented 6 percent of our net sales in the International segment and 5 percent of our net sales in the Bakeries and Foodservice segment. As of May 31, 2009, Wal-Mart accounted for 25 percent of our U.S. Retail receivables, 5 percent of our International receivables, and 15 percent of our Bakeries and Foodservice receivables. The five largest customers in our U.S. Retail segment accounted for 54 percent of its fiscal 2009 net sales, the five largest customers in our International segment accounted for 28 percent of its fiscal 2009 net sales, and the five largest customers in our Bakeries and Foodservice segment accounted for 41 percent of its fiscal 2009 net sales.

For further information on our customer credit and product return practices please refer to Note 2 to the Consolidated Financial Statements in Item 8 of this report.

COMPETITION

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

SEASONALITY

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

BACKLOG

Orders are generally filled within a few days of receipt and are subject to cancellation at any time prior to shipment. The backlog of any unfilled orders as of May 31, 2009, was not material.

WORKING CAPITAL

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

EMPLOYEES

As of May 31, 2009, we had approximately 30,000 full- and part-time employees.

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FOOD QUALITY AND SAFETY REGULATION

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

ENVIRONMENTAL MATTERS

As of May 31, 2009, we were involved with four active cleanup sites associated with the alleged or threatened release of hazardous substances or wastes located in: Sauget, Illinois; Minneapolis, Minnesota; Carter, Montana; and Moonachie, New Jersey. These matters involve several different actions, including administrative proceedings commenced by regulatory agencies and demand letters by regulatory agencies and private parties.

We recognize that our potential exposure with respect to any of these sites may be joint and several, but have concluded that our probable aggregate exposure is not material to our consolidated financial position or cash flows from operations. This conclusion is based upon, among other things: our payments and accruals with respect to each site; the number, ranking and financial strength of other potentially responsible parties; the status of the proceedings, including various settlement agreements, consent decrees, or court orders; allocations of volumetric waste contributions and allocations of relative responsibility among potentially responsible parties developed by regulatory agencies and by private parties; remediation cost estimates prepared by governmental authorities or private technical consultants; and our historical experience in negotiating and settling disputes with respect to similar sites.

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

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

EXECUTIVE OFFICERS

The section below provides information regarding our executive officers as of July 6, 2009:

Y. Marc Belton, age 50, is Executive Vice President, Worldwide Health, Brand and New Business Development. Mr. Belton joined General Mills in 1983 and has held various positions, including President of Snacks Unlimited from 1994 to 1997, New Ventures from 1997 to 1999, and Big G cereals from 1999 to 2002. He had oversight responsibility for Yoplait, General Mills Canada, and New Business Development from 2002 to May 2005, and has had oversight responsibility for Worldwide Health, Brand and New Business Development since May 2005.

Mr. Belton was elected a Vice President of General Mills in 1991, a Senior Vice President in 1994, and an Executive Vice President in June 2006. He is a director of Navistar International Corporation and U.S. Bancorp.

John R. Church, age 43, is Senior Vice President, Supply Chain. Mr. Church joined General Mills in 1988 as a Product Developer in the Big G cereals division and held various positions before becoming Vice President, Engineering in 2003. In October 2005, his role was expanded to include development of the company's strategy for the global sourcing of raw materials and manufacturing capabilities. He was named Vice President, Supply Chain Operations in March 2007 and to his present position in April 2008.

Michael L. Davis, age 53, is Senior Vice President, Global Human Resources. Mr. Davis joined General Mills in 1996 as Vice President, Compensation and Benefits, after spending 15 years in consulting with Towers Perrin. In 2002, his role was expanded to include staffing activities, and in August 2005, he became Vice President, Human Resources for the U.S. Retail and Corporate groups. He was named to his current position in January 2008.

Peter C. Erickson, age 48, is Senior Vice President, Innovation, Technology and Quality. Mr. Erickson joined General Mills in 1994 as part of the Colombo Yogurt acquisition. He has held various positions in Research &

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Development and became Vice President, Innovation, Technology and Quality in March 2003. He was named to his present position in November 2006.

Ian R. Friendly, age 48, is Executive Vice President and Chief Operating Officer, U.S. Retail. Mr. Friendly joined General Mills in 1983 and held various positions before becoming Vice President of CPW in 1994, President of Yoplait in 1998, Senior Vice President of General Mills in 2000, and President of the Big G cereals division in 2002. In May 2004, he was named Chief Executive Officer of CPW. Mr. Friendly was named to his present position in June 2006. He is a director of The Valspar Corporation.

Richard O. Lund, age 59, is Vice President, Controller. Mr. Lund joined General Mills in 1981 and held various positions before becoming Vice President, Director of Financial Operations for the Gold Medal division in 1994. He was appointed Vice President, Corporate Financial Operations in 2000 and was elected to his present position in December 2007. Prior to joining General Mills, Mr. Lund spent 9 years with Coopers & Lybrand (now PricewaterhouseCoopers LLP).

Donal L. Mulligan, age 48, is Executive Vice President, Chief Financial Officer. Mr. Mulligan joined General Mills in 2001 from The Pillsbury Company. He served as Vice President, Financial Operations for our International division until 2004, when he was named Vice President, Financial Operations for Operations and Technology. Mr. Mulligan was appointed Treasurer of General Mills in January 2006, Senior Vice President, Financial Operations in July 2007, and was elected to his present position in August 2007. From 1987 to 1998, he held several international positions at PepsiCo, Inc. and YUM! Brands, Inc.

Christopher D. O Leary, age 50, is Executive Vice President and Chief Operating Officer, International. Mr. O Leary joined General Mills in 1997 as Vice President, Corporate Growth. He was elected a Senior Vice President in 1999 and President of the Meals division in 2001. Mr. O Leary was named to his present position in June 2006. Prior to joining General Mills, he spent 17 years at PepsiCo, Inc., last serving as President and Chief Executive Officer of the Hostess Frito-Lay business in Canada. Mr. O Leary is a director of Telephone and Data Systems, Inc.

Roderick A. Palmore, age 57, is Executive Vice President, General Counsel, Chief Compliance and Risk Management Officer and Secretary. Mr. Palmore joined General Mills in this position in February 2008 from the Sara Lee Corporation. He spent 12 years at Sara Lee, last serving as Executive Vice President and General Counsel.

Kendall J. Powell, age 55, is Chairman of the Board and Chief Executive Officer of General Mills. Mr. Powell joined General Mills in 1979 and served in a variety of positions before becoming a Vice President in 1990. He became President of Yoplait in 1996, President of the Big G cereal division in 1997, and Senior Vice President of General Mills in 1998. From 1999 to 2004, he served as Chief Executive Officer of CPW. He returned from CPW in 2004 and was elected Executive Vice President. Mr. Powell was elected President and Chief Operating Officer of General Mills with overall global operating responsibility for the company in June 2006, Chief Executive Officer in September 2007 and Chairman of the Board in May 2008. He is a director of Medtronic, Inc.

Jeffrey J. Rotsch, age 58, is Executive Vice President, Worldwide Sales and Channel Development. Mr. Rotsch joined General Mills in 1974 and served as the President of several divisions, including Betty Crocker and Big G cereals. He served as Senior Vice President from 1993 to 2005 and as President, Consumer Foods Sales from 1997 to 2005. Mr. Rotsch was named to his present position in May 2005.

Christina L. Shea, age 56, is Senior Vice President, External Relations and President, General Mills Foundation. Ms. Shea joined General Mills in 1977 and has held various positions in the Big G cereals, Yoplait, Gold Medal, Snacks, and Betty Crocker divisions. From 1994 to 1999, she was President of the Betty Crocker division and was named a Senior Vice President of General Mills in 1998. Ms. Shea became President of General Mills Community Action and the General Mills Foundation in 2002 and was named to her present position in May 2005.

AVAILABLE INFORMATION

Availability of Reports We are a reporting company under the Securities Exchange Act of 1934, as amended (1934 Act), and file reports, proxy statements, and other information with the Securities and Exchange Commission (SEC). The public may read and copy any of our filings at the SEC's Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the

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SEC at (800) 732-0330. Because we submit filings to the SEC electronically, you may access this information at the SEC's internet website: *www.sec.gov*. This site contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

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

ITEM 1A Risk Factors

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

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

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

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

The five largest customers in our U.S. Retail segment accounted for 54 percent of its net sales for fiscal 2009, the five largest customers in our International segment accounted for 28 percent of its net sales for fiscal 2009, and the five largest customers in our Bakeries and Foodservice segment accounted for 41 percent of its net sales for fiscal 2009. The loss of any large customer for an extended length of time could adversely affect our sales and profits. In addition, large retail customers may seek to use their position to improve their profitability through improved efficiency, lower pricing, increased reliance on their own brand name products, increased emphasis on generic and other economy brands, and increased promotional programs. If we are unable to use our scale, marketing expertise, product innovation, knowledge of consumers' needs, and category leadership positions to respond to these demands, our profitability or volume growth could be negatively impacted.

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

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

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

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

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

Our future success and earnings growth depends in part on our ability to be efficient in the production and manufacture of our products in highly competitive markets. Gaining additional efficiencies may become more difficult over time. Our failure to reduce costs through productivity gains or by eliminating redundant costs resulting from acquisitions could adversely affect our profitability and weaken our competitive position. Many productivity initiatives involve complex reorganization of manufacturing facilities and production lines. Such manufacturing realignment may result in the interruption of production, which may negatively impact product volume and margins.

Disruption of our supply chain could adversely affect our business.

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

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

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

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

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

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

Our success depends in part on our ability to anticipate the tastes and eating habits of consumers and to offer products that appeal to their preferences. Consumer preferences change from time to time and can be affected by a number of different trends. Our failure to anticipate, identify or react to these changes and trends, or to introduce new and improved products on a timely basis, could result in reduced demand for our products, which would in turn cause our revenues and profitability to suffer. Similarly, demand for our products could be affected by consumer

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concerns regarding the health effects of ingredients such as trans fats, sugar, processed wheat, or other product ingredients or attributes.

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

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

Customer demand for our products may be limited in future periods as a result of increased purchases in response to promotional activity.

Our unit volume in the last week of each quarter can be higher than the average for the preceding weeks of the quarter in certain circumstances. In comparison to the average daily shipments in the first 12 weeks of a quarter, the final week of each quarter may have as much as four days' worth of incremental shipments (based on a five-day week), reflecting increased promotional activity at the end of the quarter. This increased activity includes promotions to assure that our customers have sufficient inventory on hand to support major marketing events or increased seasonal demand early in the next quarter, as well as promotions intended to help achieve interim unit volume targets. If, due to quarter-end promotions or other reasons, our customers purchase more product in any reporting period than end-consumer demand will require in future periods, our sales level in future reporting periods could be adversely affected.

Economic downturns could limit consumer demand for our products.

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

Our international operations are subject to political and economic risks.

In fiscal 2009, 18 percent of our consolidated net sales were generated outside of the United States. We are accordingly subject to a number of risks relating to doing business internationally, any of which could significantly harm our business. These risks include:

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

Our financial performance on a U.S. dollar denominated basis is subject to fluctuations in currency exchange rates. These fluctuations could cause material variations in our results of operations. Our principal exposures are to the Australian dollar, British pound sterling, Canadian dollar, Chinese renminbi, euro, Japanese yen, and Mexican peso. From time to time, we enter into agreements that are intended to reduce the effects of our exposure to currency fluctuations, but these agreements may not be effective in significantly reducing our exposure.

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

Food production and marketing are highly regulated by a variety of federal, state, local, and foreign agencies. Changes in laws or regulations that impose additional regulatory requirements on us could increase our cost of doing business or restrict our actions, causing our results of operations to be adversely affected. In addition, we advertise our products and could be the target of claims relating to alleged false or deceptive advertising under federal, state, and foreign laws and regulations and of new laws or regulations restricting our right to advertise products.

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

As of May 31, 2009, we had total debt and minority interests of \$7.3 billion. The agreements under which we have issued indebtedness do not prevent us from incurring additional unsecured indebtedness in the future. Our level of indebtedness may limit our:

ability to obtain additional financing for working capital, capital expenditures, or general corporate purposes, particularly if the ratings assigned to our debt securities by rating organizations were revised downward; and

flexibility to adjust to changing business and market conditions and may make us more vulnerable to a downturn in general economic conditions.

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

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

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

The global capital and credit markets, including commercial paper markets, have recently experienced increased volatility and disruption, making it more difficult for companies to access those markets. We depend on stable, liquid, and well-functioning capital and credit markets to fund our operations. Although we believe that our operating cash flows, financial assets, access to capital and credit markets, and revolving-credit agreements will permit us to meet our financing needs for the foreseeable future, there can be no assurance that continued or increased volatility and disruption in the capital and credit markets will not impair our liquidity or increase our costs of borrowing. Our business could also be negatively impacted if our suppliers or customers experience disruptions resulting from tighter capital and credit markets or a slowdown in the general economy.

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

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

Table of Contents**Our business operations could be disrupted if our information technology systems fail to perform adequately.**

The efficient operation of our business depends on our information technology systems. We rely on our information technology systems to effectively manage our business data, communications, supply chain, order entry and fulfillment, and other business processes. The failure of our information technology systems to perform as we anticipate could disrupt our business and could result in transaction errors, processing inefficiencies, and the loss of sales and customers, causing our business and results of operations to suffer. In addition, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, systems failures, security breaches, and viruses. Any such damage or interruption could have a material adverse effect on our business.

If other potentially responsible parties (PRPs) are unable to contribute to remediation costs at certain contaminated sites, our costs for remediation could be material.

We are subject to various federal, state, local, and foreign environmental and health and safety laws and regulations. Under certain of these laws, namely the Comprehensive Environmental Response, Compensation, and Liability Act and its state counterparts, liability for investigation and remediation of hazardous substance contamination at currently or formerly owned or operated facilities or at third-party waste disposal sites is joint and several. We currently are involved in active remediation efforts at certain sites where we have been named a PRP. If other PRPs at these sites are unable to contribute to remediation costs, we could be held responsible for their portion of the remediation costs, and those costs could be material. We cannot assure that our costs in relation to these environmental matters or compliance with environmental laws in general will not exceed our established liabilities or otherwise have an adverse effect on our business and results of operations.

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

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

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

Our indefinite-lived intangible assets are also tested for impairment annually and whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Our estimate of the fair value of the brands is based on a discounted cash flow model using inputs including: projected revenues from our annual long-range plan; assumed royalty rates which could be payable if we did not own the brands; and a discount rate.

As of May 31, 2009, we had \$10.4 billion of goodwill and indefinite-lived intangible assets. While we currently believe that the fair value of each intangible exceeds its carrying value and that those intangibles so classified will contribute indefinitely to our cash flows, materially different assumptions regarding future performance of our businesses or a different weighted-average cost of capital could result in significant impairment losses and amortization expense.

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Resolution of uncertain income tax matters and changes in tax laws could adversely affect our results of operations or cash flows from operations.

We are subject to income tax in the various jurisdictions in which we operate. Increases in statutory income tax rates in any of the jurisdictions in which we operate could reduce our after-tax income and have an adverse effect on our results of operations.

Our consolidated effective income tax rate is influenced by tax planning opportunities available to us in the various jurisdictions in which we operate. Management judgment is involved in determining our effective tax rate and in evaluating the ultimate resolution of any uncertain tax positions. We are periodically under examination or engaged in a tax controversy. We establish liabilities in a variety of taxing jurisdictions when, despite our belief that our tax return positions are supportable, we believe that certain positions may be challenged and may need to be revised. We adjust these liabilities in light of changing facts and circumstances, such as the progress of a tax audit, and changes in these liabilities affect our effective income tax rate. We also record interest on these liabilities at the appropriate statutory interest rate. These interest charges are also included in our effective tax rate, but are not included in our liabilities for uncertain tax positions disclosed elsewhere in this report. Adjustments to these liabilities for individual issues have generally not exceeded 1 percent of earnings before income taxes and after-tax earnings from joint ventures annually.

The Internal Revenue Service (IRS) has concluded its field examinations of our 2002-2006 federal tax years. With limited exceptions, all matters raised in the field examinations have been resolved. The IRS has challenged the amount of capital loss and depreciation and amortization we reported as a result of our sale of minority interests in our General Mills Cereals, LLC (GMC) subsidiary. The IRS has proposed adjustments that effectively eliminate most of the tax benefits associated with this transaction. We believe we have meritorious defenses and are vigorously defending our positions. We have appealed the results of the IRS field examination to the IRS Appeals Division. Our potential liability for this matter is significant. We have determined that a portion of this matter should be included as a component of our total liabilities for uncertain tax positions as disclosed in Note 14 to our Consolidated Financial Statements included in Item 8 of this report.

ITEM 1B Unresolved Staff Comments

None.

ITEM 2 Properties

We own our principal executive offices and main research facilities, which are located in the Minneapolis, Minnesota metropolitan area. We operate numerous manufacturing facilities and maintain many sales and administrative offices and warehouses, mainly in the United States. Other facilities are operated in Canada and elsewhere around the world. As of May 31, 2009, we operated 70 facilities for the production of a wide variety of food products. Of these facilities, 44 are located in the United States, 11 in the Asia/Pacific region (7 of which are leased), 3 in Canada (1 of which is leased), 7 in Europe (3 of which are leased), 4 in Latin America and Mexico (1 of which is leased), and 1 in South Africa. The following is a list of the locations of our principal production facilities, which primarily support the segment noted:

U.S. Retail

Carson, California

Lodi, California

Covington, Georgia

Belvidere, Illinois
West Chicago, Illinois

New Albany, Indiana

Carlisle, Iowa

Cedar Rapids, Iowa

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Reed City, Michigan

Hannibal, Missouri

Kansas City, Missouri

Great Falls, Montana

Vineland, New Jersey

Albuquerque, New Mexico

Buffalo, New York

Wellston, Ohio

Murfreesboro, Tennessee

Milwaukee, Wisconsin

Irapuato, Mexico

International

Buenos Aires, Argentina

Mt. Waverly, Australia

Rooty Hill, Australia

Guangzhou, China

Nanjing, China

Shanghai, China

Arras, France

San Adrian, Spain

Berwick, United Kingdom

Cagua, Venezuela

Bakeries and Foodservice

Federalsburg, Maryland

Chanhassen, Minnesota

Joplin, Missouri

Martel, Ohio

We also own or lease warehouse space totaling 12 million square feet, of which 9 million square feet are leased, that primarily supports our U.S. Retail segment. We own and lease a number of sales and administrative offices in the United States, Canada, and elsewhere around the world, totaling 3 million square feet (700,000 square feet of which are leased).

As part of our Häagen-Dazs business in our International segment, we operate 234 and franchise 417 branded ice cream parlors in various countries around the world, all outside of the United States and Canada. All shops we operate are leased, totaling 227,000 square feet.

ITEM 3 Legal Proceedings

We are the subject of various pending or threatened legal actions in the ordinary course of our business. All such matters are subject to many uncertainties and outcomes that are not predictable with assurance. In our opinion, there were no claims or litigation pending as of May 31, 2009, that were reasonably likely to have a material adverse effect on our consolidated financial position or results of operations. See the information contained under the section entitled

Environmental Matters in Item 1 of this report for a discussion of environmental matters in which we are involved.

ITEM 4 Submission of Matters to a Vote of Security Holders

None.

Table of Contents**PART II****ITEM 5 Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is listed on the New York Stock Exchange. On June 19, 2009, there were approximately 32,900 record holders of our common stock. Information regarding the market prices for our common stock and dividend payments for the two most recent fiscal years is set forth in Note 18 to the Consolidated Financial Statements in Item 8 of this report.

The following table sets forth information with respect to shares of our common stock that we purchased during the fiscal quarter ended May 31, 2009:

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased (a) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of a Publicly Announced Program (b) | Maximum Number of Shares that may yet be Purchased Under the Program (b) |
|---------------------------------|---|-------------------------------------|---|---|
| Feb. 23, 2009- Mar. 25, 2009 | 1,267,671 | \$48.81 | 1,267,671 | 22,617,942 |
| Mar. 26, 2009- Apr. 25, 2009 | 17,525 | 50.31 | 17,525 | 22,600,417 |
| Apr. 26, 2009- May 31, 2009 | 24,274 | 52.25 | 24,274 | 22,576,143 |
| Total | 1,309,470 | \$48.89 | 1,309,470 | 22,576,143 |

(a) The total number of shares purchased includes: (i) 59,470 shares purchased from the ESOP fund of our 401(k) savings plan; and (ii) 1,250,000 shares purchased in the open market. These amounts include 715 shares acquired at an average price of \$51.18 for which settlement occurred after May 31, 2009.

(b) On December 11, 2006, our Board of Directors approved and we announced an authorization for the repurchase of up to 75 million shares of our common stock. Purchases can be made in the open market or in privately negotiated transactions, including the use of call options and other derivative instruments, Rule 10b5-1 trading plans, and accelerated repurchase programs. The Board did not specify an expiration date for the authorization.

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The following table sets forth selected financial data for each of the fiscal years in the five-year period ended May 31, 2009:

| In Millions, Except Per Share Data, Percentages and Ratios | Fiscal Year | | | | |
|--|--------------------|-------------|-------------|-------------|-------------|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| Operating data: | | | | | |
| Net sales | \$14,691.3 | \$13,652.1 | \$12,441.5 | \$11,711.3 | \$11,307.8 |
| Gross margin (a) | 5,233.5 | 4,873.8 | 4,486.4 | 4,166.5 | 3,982.6 |
| Selling, general, and administrative expenses | 2,953.9 | 2,625.0 | 2,389.3 | 2,177.7 | 1,998.6 |
| Segment operating profit (b) | 2,640.9 | 2,405.5 | 2,260.1 | 2,111.6 | 2,016.4 |
| After-tax earnings from joint ventures | 91.9 | 110.8 | 72.7 | 69.2 | 93.9 |
| Net earnings | 1,304.4 | 1,294.7 | 1,143.9 | 1,090.3 | 1,240.0 |
| Depreciation and amortization | 453.6 | 459.2 | 417.8 | 423.9 | 443.1 |
| Advertising and media expense (c) | 732.1 | 587.2 | 491.4 | 471.4 | 426.0 |
| Research and development expense | 208.2 | 204.7 | 191.1 | 178.4 | 165.3 |
| Average shares outstanding: | | | | | |
| Basic | 331.9 | 333.0 | 346.5 | 357.7 | 371.2 |
| Diluted | 343.5 | 346.9 | 360.2 | 378.8 | 408.7 |
| Net earnings per share: | | | | | |
| Basic | \$ 3.93 | \$ 3.86 | \$ 3.30 | \$ 3.05 | \$ 3.34 |
| Diluted | \$ 3.80 | \$ 3.71 | \$ 3.18 | \$ 2.90 | \$ 3.08 |
| Operating ratios: | | | | | |
| Gross margin as a percentage of net sales | 35.6% | 35.7% | 36.1% | 35.6% | 35.2% |
| Selling, general, and administrative expenses as a percentage of net sales | 20.1% | 19.2% | 19.2% | 18.6% | 17.7% |
| Segment operating profit as a percentage of net sales (b) | 18.0% | 17.6% | 18.2% | 18.0% | 17.8% |
| Effective income tax rate | 37.3% | 34.4% | 34.3% | 34.5% | 36.6% |
| Return on average total capital (a) (b) | 12.3% | 11.8% | 11.3% | 10.6% | 10.0% |
| Balance sheet data: | | | | | |
| Land, buildings, and equipment | \$ 3,034.9 | \$ 3,108.1 | \$ 3,013.9 | \$ 2,997.1 | \$ 3,111.9 |
| Total assets | 17,874.8 | 19,041.6 | 18,183.7 | 18,075.3 | 17,924.0 |
| Long-term debt, excluding current portion | 5,754.8 | 4,348.7 | 3,217.7 | 2,414.7 | 4,255.2 |
| Total debt (a) | 7,075.5 | 6,999.5 | 6,206.1 | 6,049.3 | 6,193.1 |
| Minority interests | 242.3 | 242.3 | 1,138.8 | 1,136.2 | 1,133.2 |
| Stockholders equity | 5,174.7 | 6,215.8 | 5,319.1 | 5,772.3 | 5,676.4 |
| Cash flow data: | | | | | |
| Net cash provided by operating activities | \$ 1,828.2 | \$ 1,729.9 | \$ 1,751.2 | \$ 1,843.5 | \$ 1,785.9 |
| Capital expenditures | 562.6 | 522.0 | 460.2 | 360.0 | 434.0 |
| Net cash provided (used) by investing activities | (288.9) | (442.4) | (597.1) | (370.0) | 413.0 |
| Net cash used by financing activities | 1,404.5 | 1,093.0 | 1,398.1 | 1,404.3 | 2,385.0 |
| Fixed charge coverage ratio | 5.31 | 4.87 | 4.37 | 4.54 | 4.61 |
| Operating cash flow to debt ratio (a) | 25.8% | 24.7% | 28.2% | 30.5% | 28.8% |
| Share data: | | | | | |
| Low stock price | \$ 47.22 | \$ 51.43 | \$ 49.27 | \$ 44.67 | \$ 43.01 |
| High stock price | 70.16 | 62.50 | 61.11 | 52.16 | 53.89 |
| Closing stock price | 51.18 | 61.09 | 60.15 | 51.79 | 49.68 |
| Cash dividends per common share | 1.72 | 1.57 | 1.44 | 1.34 | 1.24 |

- (a) See Glossary in Item 8 of this report for definition.
- (b) See MD&A in Item 7 of this report for our discussion of this measure not defined by generally accepted accounting principles.
- (c) Advertising and media expense for years prior to fiscal 2009 have been reclassified to conform to the current period presentation by eliminating certain fees paid to third-parties and adding certain media content development costs.

Fiscal 2009 was a 53-week year; all other fiscal years were 52 weeks.

In fiscal 2007, our adoption of a new accounting pronouncement for defined benefit plans resulted in an after-tax reduction to stockholders' equity of \$440 million, and our adoption of a new accounting pronouncement related to stock compensation resulted in a decrease to fiscal 2007 net earnings of \$43 million, and a decrease to fiscal 2007 cash flows from operations and corresponding decrease to cash flows used by financing activities of \$73 million. See Notes 2 and 13 to the Consolidated Financial Statements in Item 8 of this report.

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

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

Our fundamental business goal is to generate superior returns for our stockholders over the long term. We believe that increases in net sales, segment operating profits, earnings per share (EPS), and return on average total capital are the key measures of financial performance for our businesses. See the Non-GAAP Measures section below for our discussion of segment operating profit and return on average total capital, which are not defined by generally accepted accounting principles (GAAP). Our objectives are to consistently deliver:

low single-digit annual growth in net sales;

mid single-digit annual growth in total segment operating profit;

high single-digit annual growth in EPS; and

on average, at least a 50 basis point annual increase in return on average total capital.

We believe that this financial performance, coupled with an attractive dividend yield, should result in long-term value creation for stockholders. We also return a substantial amount of cash annually to stockholders through share repurchases.

For the fiscal year ended May 31, 2009, our net sales grew 8 percent, total segment operating profit grew 10 percent, diluted EPS grew 2 percent, and our return on average total capital improved by 50 basis points. Diluted EPS for fiscal 2009 includes a \$0.22 net loss from mark-to-market valuation of certain commodity positions, a net gain of \$0.11 related to divestitures in fiscal 2009, an \$0.08 gain from a settlement with the insurance carrier covering our *La Salteña* pasta manufacturing facility in Argentina and a \$0.15 charge associated with an unfavorable court decision on an uncertain tax matter. Net cash provided by operations totaled \$1.8 billion in fiscal 2009, enabling us to increase our annual dividend payments per share by 10 percent from fiscal 2008 and continue returning cash to stockholders through share repurchases, which totaled \$1.3 billion in fiscal 2009. We also made significant capital investments totaling \$563 million in fiscal 2009, an increase of 8 percent from fiscal 2008, to support future growth and productivity. These results met or exceeded our long-term targets.

We achieved each of our five key operating objectives for fiscal 2009:

We generated broad-based growth in net sales across our businesses. Each of our operating segments posted net sales gains in fiscal 2009. We generated 2 points of growth from volume and 8 points from net price realization and product mix, offset by 2 points of unfavorable foreign currency exchange.

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Our cost savings initiatives helped to partially offset input cost inflation in fiscal 2009. We took steps to manage raw material costs, especially with significant commodity cost increases in fiscal 2009. We maintained our efforts on holistic margin management (HMM), which include cost-savings initiatives, marketing spending efficiencies, and profitable sales mix strategies in order to protect our margins, enabling us to reinvest in our brands through higher levels of consumer marketing spending.

We invested a significant amount in media and other brand-building marketing programs, which contributed to net sales growth across our businesses.

We partnered with customers, including traditional food retailers, new retail formats, and various away-from-home channels, in order to enhance shopper insights, introduce new products and extend our existing brands to new markets.

We continued to develop our business in international markets. We focused on our core platforms of super premium ice cream, convenient meal solutions, and healthy snacking by introducing new products and investing in consumer spending.

Details of our financial results are provided in the Fiscal 2009 Consolidated Results of Operations section below. In fiscal 2010, our plans assume that world economic conditions will remain challenging, and that foreign currency exchange transaction and translation effects will reduce our reported net sales and earnings growth rates. Fiscal 2010 will be 52 weeks compared to 53 weeks in fiscal 2009. We expect our net sales in fiscal 2010 to be comparable to fiscal 2009 as reported. We expect input cost inflation to moderate from fiscal 2009 levels, which together with savings from our HMM initiatives should lead to expanded margins. Our key operating objectives for fiscal 2010 also include a high single digit increase in consumer marketing support. We believe this support, coupled with product innovation and consumer spending investments made in fiscal 2009, will be a key factor in generating unit volume growth, as we believe it builds consumer loyalty, increases our market share, and defends against other branded, private-label and value offerings. Our plans for international include unit volume growth through investment in our brands in growing categories and growth opportunities through distribution gains and innovation. We will also focus on higher-margin, branded product lines within the most attractive foodservice customer channels.

Our plans also call for \$630 million of expenditures for capital projects and a significant amount of cash returned to stockholders through share repurchases and dividends. Our long-term objective is to reduce outstanding shares by a net 2 percent per year. We intend to continue repurchasing shares in fiscal 2010, with a goal of reducing average diluted shares outstanding, but at a rate less than our 2 percent long-term objective. On June 29, 2009, our Board of Directors approved a dividend increase to an annual rate of \$1.88 per share. This represents a 9 percent compound annual growth rate in dividends from fiscal 2006 to fiscal 2010.

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

FISCAL 2009 CONSOLIDATED RESULTS OF OPERATIONS

For fiscal 2009, we reported diluted EPS of \$3.80, up 2 percent from \$3.71 per share earned in fiscal 2008. Earnings after tax were \$1,304 million in fiscal 2009, up 1 percent from \$1,295 million in fiscal 2008.

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

Components of Net Sales Growth

| | Fiscal 2009 vs. 2008 |
|--------------------------------------|-------------------------------------|
| Contributions from volume growth (a) | 2 pts |
| Net price realization and mix | 8 pts |
| Foreign currency exchange | -2 pts |
| Net sales growth | 8 pts |

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

Net sales for fiscal 2009 grew 8 percent to \$14.7 billion, driven by 2 percentage points of volume growth, mainly in our U.S. Retail and International segments, and 8 percentage points of growth from net price realization and mix. This growth was offset by 2 percentage points of unfavorable foreign currency exchange. The 53rd week in fiscal 2009 contributed approximately 1.5 percentage points of net sales growth.

Cost of sales was up \$680 million in fiscal 2009 versus fiscal 2008, while cost of sales as a percent of net sales remained essentially flat from fiscal 2008 to fiscal 2009. Higher volume drove \$90 million of the increase in cost of sales. Higher input costs and changes in mix increased cost of sales by \$453 million. We also recorded a \$119 million net increase in cost of sales related to mark-to-market valuation of certain commodity positions and grain inventories as described in Note 7 to the Consolidated Financial Statements in Item 8 of this report, compared to a net decrease of \$57 million in fiscal 2008. In fiscal 2008, we recorded \$18 million of charges to cost of sales, primarily for depreciation associated with restructured assets. Cost of sales for fiscal 2008 also included \$21 million of costs, including product write offs, logistics, and other costs, related to voluntary product recalls.

Gross margin grew 7 percent in fiscal 2009 versus fiscal 2008, as operating leverage, cost savings initiatives, and net price realization offset input cost inflation. Gross margin as a percent of net sales decreased by 10 basis points from fiscal 2008 to fiscal 2009.

Selling, general, and administrative (SG&A) expenses increased by \$329 million in fiscal 2009 versus fiscal 2008. The increase in SG&A expenses from fiscal 2008 was largely the result of a 17 percent increase in media and other consumer marketing spending consistent with our brand-building strategy, along with higher levels of compensation and benefits expense. We also recorded write downs of \$35 million related to various corporate investments in fiscal 2009, compared to a net gain of \$16 million in fiscal 2008. These higher costs were partially offset by a \$41 million settlement with the insurance carrier covering our *La Salteña* pasta manufacturing plant in Argentina that was destroyed by fire. SG&A expenses as a percent of net sales increased by 90 basis points compared to fiscal 2008. During fiscal 2009 we recorded a **net divestiture gain** of \$85 million. We recorded a gain of \$129 million related to the sale of our *Pop Secret* microwave popcorn product line. We recorded a \$38 million loss on the sale of a portion of the assets of our frozen unbaked bread dough product line in our Bakeries and Foodservice segment, including the discontinuation of our frozen dinner roll product line in our U.S. Retail segment that shared a divested facility. In addition, we recorded a \$6 million loss on the sale of our bread concentrates product line in our Bakeries and Foodservice segment.

Net interest for fiscal 2009 totaled \$390 million, \$32 million lower than fiscal 2008. Average interest-bearing instruments decreased \$264 million leading to a \$15 million decrease in net interest, while average interest rates decreased 20 basis points generating a \$17 million decrease in net interest. Net interest includes preferred distributions paid on minority interests. The average interest rate on our total outstanding debt and minority interests was 5.6 percent in fiscal 2009 compared to 5.8 percent in fiscal 2008.

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Restructuring, impairment, and other exit costs totaled \$42 million in fiscal 2009 as follows:

Expense, in Millions

| | |
|--|----------------|
| Closure of Contagem, Brazil bread and pasta plant | \$ 16.8 |
| Discontinuation of product line at Murfreesboro, Tennessee plant | 8.3 |
| Charges associated with restructuring actions previously announced | 16.5 |
| Total | \$ 41.6 |

In fiscal 2009, due to declining financial results, we approved the restructuring of our International segment's business in Brazil. We discontinued the production and marketing of *Forno De Minas* cheese bread and *Frescarini* pasta brands in Brazil and closed our Contagem, Brazil manufacturing facility. These actions affected 556 employees in our Brazilian operations. Our other product lines in Brazil are not affected by the decision. As a result of this decision, we incurred a charge of \$17 million in the fourth quarter of fiscal 2009, consisting primarily of \$5 million of employee severance, an \$11 million non-cash impairment charge to write down assets to their net realizable value, and \$1 million of other costs associated with this restructuring action. Subsequent to the end of our Brazilian subsidiary's fiscal year end of April 30, 2009, we sold all of the production assets and the *Forno De Minas* brand for proceeds of \$6 million. We utilized the values of the production assets established as part of the sale to determine the fiscal 2009 impairment charge. We expect this restructuring action to be completed in the second quarter of fiscal 2010.

Due to declining net sales and to improve manufacturing capacity for other product lines, we decided to exit our U.S. Retail segment's *Perfect Portions* refrigerated biscuits product line at our manufacturing facility in Murfreesboro, Tennessee. We recorded an \$8 million non-cash impairment charge against long lived assets used for this product line. Our other product lines at Murfreesboro are not affected by the decision, and no employees were affected by this action, which we expect will be completed in the second quarter of fiscal 2010.

In fiscal 2009, we also incurred \$17 million of incremental plant closure expenses related to previously announced restructuring activities, including \$10 million for the remainder of our lease obligation at our previously closed facility in Trenton, Ontario.

In fiscal 2009 we paid \$10 million in cash related to restructuring actions taken in fiscal 2009 and previous years. In fiscal 2010, we expect to incur a nominal amount of expense associated with our previously announced restructuring actions.

Our consolidated **effective income tax rate** for fiscal 2009 was 37.3 percent compared to 34.4 percent in fiscal 2008. The increase in the effective rate is primarily due to the effect of a 2009 U.S. appellate court decision that reversed a 2008 U.S. district court decision. In the third quarter of fiscal 2008, we recorded an income tax benefit of \$31 million as a result of a favorable U.S. district court decision on an uncertain tax matter. In the third quarter of fiscal 2009, the U.S. Court of Appeals for the Eighth Circuit issued an opinion reversing the district court decision. As a result, we recorded \$53 million (including interest) of income tax expense related to the reversal of cumulative income tax benefits from this uncertain tax matter recognized in fiscal years 1992 through 2008. We expect to make cash tax and interest payments of approximately \$32 million in connection with this matter. We are currently evaluating our options for appeal. The rate also increased in fiscal 2009 due to \$15 million of tax expense related to nondeductible goodwill write-offs associated with our divestitures.

Other items that decreased the 2009 effective income tax rate include a favorable California appeals court decision that resulted in the recognition of \$10 million of tax benefits. In addition, we recognized \$21 million of other tax benefits, primarily related to foreign tax credits and audit settlements.

After-tax earnings from joint ventures totaled \$92 million in fiscal 2009, compared to \$111 million in fiscal 2008. Fiscal 2009 earnings were reduced by a \$6 million deferred income tax valuation allowance. In fiscal 2008, earnings included \$16 million for our share of a gain on the sale of a Cereal Partners Worldwide (CPW) property in the United Kingdom offset by restructuring expenses of \$8 million. Fiscal 2008 results also included \$2 million for our share of a gain on the sale of the 8th Continent soymilk business. In fiscal 2009, net sales for CPW increased 2

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percent. Volume growth of 4 percentage points, including growth in Russia, Middle East, Asia, and Latin America, and net price realization were offset by unfavorable foreign exchange. Net sales for our Häagen-Dazs joint venture in Japan increased 2 percent in fiscal 2009 as a result of favorable foreign exchange of 11 percentage points and positive net price realization, offset by a decrease in volume.

Average diluted shares outstanding decreased by 3 million from fiscal 2008 primarily due to the repurchase of 20 million shares of common stock in fiscal 2009, offset by the issuance of 14 million shares of common stock in fiscal 2008 to settle a forward contract with an affiliate of Lehman Brothers, Inc. (Lehman Brothers), the issuance of common stock upon stock option exercises, the issuance of annual stock awards, the vesting of restricted stock units, and the issuance of shares to acquire Humm Foods.

FISCAL 2009 CONSOLIDATED BALANCE SHEET ANALYSIS

Cash and cash equivalents increased \$89 million from fiscal 2008, as discussed in the Liquidity section below.

Receivables decreased \$128 million from fiscal 2008, as a result of foreign exchange translation and sales timing shifts. The allowance for doubtful accounts was essentially unchanged from fiscal 2008.

Inventories decreased \$20 million from fiscal 2008 due to a decrease in the values and levels of grain inventories, as well as a \$24 million increase in the reserve for the excess of first in, first out (FIFO) inventory costs over last in, first out (LIFO) inventory costs. These decreases were partially offset by higher levels of finished goods.

Prepaid expenses and other current assets decreased \$41 million, as commodity and foreign exchange derivative receivables decreased \$46 million.

Land, buildings, and equipment decreased \$73 million, as capital expenditures of \$563 million were partially offset by depreciation expense of \$443 million. We also recorded \$18 million of impairment charges associated with restructured facilities in Contagem, Brazil and Murfreesboro, Tennessee. In addition, we sold facilities with book values of \$84 million in Cedar Rapids, Iowa; Bakersfield, California; Hazelton, Pennsylvania; Montreal, Canada; and Vinita, Oklahoma.

Goodwill and other intangible assets decreased \$153 million from fiscal 2008 primarily due to decreases from foreign currency translation of \$134 million, divestitures of \$42 million, and deferred tax adjustments of \$45 million related to divestitures and changes in acquisition related income tax liabilities. These were partially offset by the acquisition of Humm Foods, which increased goodwill and other intangibles by \$61 million.

Other assets decreased \$855 million from fiscal 2008, driven by a \$915 million decrease in our pension asset following our annual update of assumptions and fiscal 2009 asset performance, offset by a \$64 million increase in interest rate derivative receivables resulting from a decrease in interest rates.

Accounts payable decreased \$134 million to \$803 million in fiscal 2009 as a result of lower vendor payables associated with inventories and construction in progress, as well as foreign exchange translation.

Long-term debt, including current portion, and notes payable increased \$76 million from fiscal 2008. We issued senior notes totaling \$1.9 billion in fiscal 2009 that we used to repay a portion of our commercial paper.

The current and noncurrent portions of **deferred income taxes** decreased \$302 million, due to losses in our pension assets and the book versus tax treatment of certain inventories and investments. We also incurred \$216 million of deferred income tax expense in fiscal 2009.

Other current liabilities increased \$242 million, driven by increases in accrued taxes of \$101 million and a \$28 million increase in consumer marketing accruals. We also had an increase in foreign exchange derivatives payable of \$19 million.

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Other liabilities increased \$8 million, driven by an increase in accrued compensation benefits of \$50 million and a \$40 million increase in non-current interest derivatives payable, offset by a \$88 million decrease in non-current taxes payable.

Retained earnings increased \$725 million, reflecting fiscal 2009 net earnings of \$1,304 million less dividends paid of \$580 million. **Treasury stock** increased \$815 million due to \$1,296 million of share repurchases, offset by \$443 million related to stock based compensation plans and \$39 million for shares issued for the acquisition of Humm Foods. **Additional paid in capital** increased \$101 million due primarily to an increase from stock compensation activity and \$16 million for shares issued in the acquisition of Humm Foods. **Accumulated other comprehensive income (loss)** decreased by \$1,052 million after-tax, primarily driven by losses in our pension, other postretirement, and postemployment benefit plans of \$1.2 billion.

FISCAL 2008 CONSOLIDATED RESULTS OF OPERATIONS

For fiscal 2008, we reported diluted EPS of \$3.71, up 17 percent from \$3.18 per share earned in fiscal 2007. Earnings after tax were \$1,295 million in fiscal 2008, up 13 percent from \$1,144 million in fiscal 2007.

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

Components of Net Sales Growth

| | Fiscal 2008 vs. 2007 |
|---|-------------------------------------|
| Contributions from volume growth (a) | 3 pts |
| Net price realization and mix | 5 pts |
| Foreign currency exchange | 2 pts |
| Net sales growth | 10 pts |
| (a) Measured in tons based on the stated weight of our product shipments. | |

Net sales for fiscal 2008 grew 10 percent to \$13.7 billion, driven by 3 percentage points from volume growth, mainly in our U.S. Retail and International segments, and 5 percentage points of growth from net price realization and mix across many of our businesses. In addition, foreign currency exchange effects added 2 percentage points of growth. During the second quarter of fiscal 2008, we voluntarily recalled all pepperoni varieties of *Totino's* and *Jeno's* frozen pizza manufactured on or before October 30, 2007 due to potential contamination. We also voluntarily recalled one flavor of *Progresso* soup during the third quarter of fiscal 2008. The frozen pizza and soup recalls did not significantly impact our net sales for fiscal 2008.

Cost of sales was up \$823 million in fiscal 2008 versus fiscal 2007. Cost of sales as a percent of net sales in fiscal 2008 increased 40 basis points compared to fiscal 2007. Higher volume drove \$207 million of this increase. Higher input costs and changes in mix increased cost of sales by \$633 million. We recorded net mark-to-market gains of \$60 million related to derivatives on open commodity positions to mitigate input cost inflation, and a \$3 million loss from the revaluation of certain grain inventories to market. We also recorded \$18 million of charges to cost of sales, primarily for depreciation associated with restructured assets. Our *La Salteña* pasta manufacturing plant in Argentina was destroyed by a fire resulting in a loss of \$1 million, net of insurance proceeds, from the write off of inventory and property, plant, and equipment, and severance expense related to this event. Cost of sales for fiscal 2008 also included \$21 million of costs, including product write offs, logistics, and other costs, related to the voluntary recalls.

Gross margin grew 9 percent in fiscal 2008 versus fiscal 2007, driven by higher volume, cost savings initiatives, and net price realization. Gross margin as a percent of net sales declined 40 basis points from fiscal 2007 to fiscal 2008. This primarily reflects declines in our Bakeries and Foodservice segment, where we took price increases designed to offset cost increases on a dollar basis, but gross margin as a percent of net sales declined.

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SG&A expenses increased by \$236 million in fiscal 2008 versus fiscal 2007. The increase in SG&A expenses from fiscal 2007 was largely the result of a 13 percent increase in media and other consumer marketing spending consistent with our brand-building strategy, \$30 million more foreign exchange losses than the previous year, higher levels of compensation and benefits, a 7 percent increase in research and development expense supporting our innovation initiatives, and \$9 million of costs associated with the remarketing of the Class A and Series B-1 Interests in our General Mills Cereals, LLC (GMC) subsidiary. SG&A expenses as a percent of net sales was essentially flat compared to fiscal 2007.

Net interest for fiscal 2008 totaled \$422 million, \$5 million lower than fiscal 2007. Average interest-bearing instruments increased \$467 million leading to a \$29 million increase in net interest, while average interest rates decreased 50 basis points generating a \$34 million decrease in net interest. Net interest includes preferred distributions paid on minority interests.

Restructuring, impairment, and other exit costs totaled \$21 million in fiscal 2008 as follows:

Expense (Income), in Millions

| | |
|--|----------------|
| Closure of Poplar, Wisconsin plant | \$ 2.7 |
| Closure and sale of Allentown, Pennsylvania frozen waffle plant | 9.4 |
| Closure of leased Trenton, Ontario frozen dough plant | 10.9 |
| Restructuring of production scheduling and discontinuation of cake product line at Chanhassen, Minnesota plant | 1.6 |
| Gain on sale of previously closed Vallejo, California plant | (7.1) |
| Charges associated with restructuring actions previously announced | 3.5 |
| Total | \$ 21.0 |

During fiscal 2008, we approved a plan to transfer *Old El Paso* production from our Poplar, Wisconsin facility to other plants and to close the Poplar facility. This action to improve capacity utilization and reduce costs affected 113 employees at the Poplar facility, and resulted in a charge of \$3 million consisting entirely of employee severance. Due to declining financial results, we decided to exit our frozen waffle product line (retail and foodservice) and to close our frozen waffle plant in Allentown, Pennsylvania, affecting 111 employees. We recorded a \$3 million charge for employee severance and a \$6 million non-cash impairment charge against long-lived assets at the plant. We also completed an analysis of the viability of our Bakeries and Foodservice frozen dough facility in Trenton, Ontario, and closed the facility, affecting 470 employees. We recorded an \$8 million charge for employee expenses and a \$3 million charge for shutdown and decommissioning costs. We also restructured our production scheduling and discontinued our cake production line at our Chanhassen, Minnesota Bakeries and Foodservice plant. These actions affected 125 employees, and we recorded a \$3 million charge for employee severance, partially offset by a \$1 million gain from the sale of long-lived assets. All of the foregoing actions were completed in fiscal 2009. Finally, we recorded additional charges of \$4 million primarily related to previously announced Bakeries and Foodservice segment restructuring actions, including employee severance for 38 employees, that were completed in fiscal 2008. In addition, during fiscal 2008 we recorded an \$18 million non-cash charge related to depreciation associated with restructured assets at our plant in Trenton, Ontario and \$1 million of inventory write offs at our plants in Chanhassen, Minnesota and Allentown, Pennsylvania. These charges are recorded in cost of sales in our Consolidated Statements of Earnings and in unallocated corporate items in our segment results.

Our consolidated **effective income tax rate** for fiscal 2008 was 34.4 percent compared to 34.3 percent for the same period of fiscal 2007. The 0.1 percentage point increase was the result of an increase in the state income tax rate due to more income in higher rate jurisdictions and lower foreign tax credits. These items were offset by a favorable U.S. district court decision on an uncertain tax matter that reduced our liability for uncertain tax positions and related accrued interest by \$31 million. As discussed above under the heading *Fiscal 2009 Consolidated Results of Operations*, this decision was reversed by a U.S. appellate court decision in fiscal 2009.

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After-tax earnings from joint ventures totaled \$111 million in fiscal 2008, compared to \$73 million in fiscal 2007. In fiscal 2008, net sales for CPW grew 23 percent driven by higher volume, key new product introductions including *Oats & More* in the United Kingdom and *Nesquik Duo* across a number of regions, favorable foreign currency effects, and the benefit of a full year of sales from the Uncle Tobys acquisition, which closed in July 2006. Our fiscal 2008 after-tax earnings from joint ventures was benefited by \$16 million for our share of a gain on the sale of a CPW property in the United Kingdom offset by restructuring expenses of \$8 million. Net sales for our Häagen-Dazs joint ventures in Asia increased 16 percent in fiscal 2008 as a result of favorable foreign exchange and introductory product shipments. During the third quarter of fiscal 2008, the 8th Continent soymilk business was sold. Our 50 percent share of the after-tax gain on the sale was \$2 million.

Average diluted shares outstanding decreased by 13 million from fiscal 2007 due to our repurchase of 24 million shares of stock during fiscal 2008, partially offset by the issuance of 14 million shares to settle a forward purchase contract with an affiliate of Lehman Brothers, the issuance of shares upon stock option exercises, the issuance of annual stock awards, and the vesting of restricted stock units.

RESULTS OF SEGMENT OPERATIONS

Our businesses are organized into three operating segments: U.S. Retail; International; and Bakeries and Foodservice. The following tables provide the dollar amount and percentage of net sales and operating profit from each segment for fiscal years 2009, 2008, and 2007:

Net Sales

| In Millions | Net Sales | Percent of Net Sales | Fiscal Year | | | |
|--------------------------|-------------|-------------------------------|-------------|------|-------------|------|
| | | | 2009 | 2008 | 2007 | |
| | | | | | | |
| U.S. Retail | \$ 10,052.1 | 68% | \$ 9,072.0 | 66% | \$ 8,491.3 | 68% |
| International | 2,591.4 | 18 | 2,558.8 | 19 | 2,123.4 | 17 |
| Bakeries and Foodservice | 2,047.8 | 14 | 2,021.3 | 15 | 1,826.8 | 15 |
| Total | \$ 14,691.3 | 100% | \$ 13,652.1 | 100% | \$ 12,441.5 | 100% |

Segment Operating Profit

| In Millions | Segment Operating Profit | Percent of Segment Operating Profit | Fiscal Year | | | |
|--------------------------|--------------------------------|---|-------------|------|------------|------|
| | | | 2009 | 2008 | 2007 | |
| | | | | | | |
| U.S. Retail | \$ 2,208.5 | 84% | \$ 1,971.2 | 82% | \$ 1,896.6 | 84% |
| International | 261.4 | 10 | 268.9 | 11 | 215.7 | 10 |
| Bakeries and Foodservice | 171.0 | 6 | 165.4 | 7 | 147.8 | 6 |
| Total | \$ 2,640.9 | 100% | \$ 2,405.5 | 100% | \$ 2,260.1 | 100% |

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

Table of Contents**U.S. RETAIL SEGMENT**

Our U.S. Retail segment reflects business with a wide variety of grocery stores, mass merchandisers, membership stores, natural food chains, and drug, dollar and discount chains operating throughout the United States. Our major product categories in this business segment are ready-to-eat cereals, refrigerated yogurt, ready-to-serve soup, dry dinners, shelf stable and frozen vegetables, 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 soup, granola bars, and cereal.

The components of the changes in net sales are shown in the following table:

Components of U.S. Retail Net Sales Growth

| | Fiscal 2009 vs. 2008 | Fiscal 2008 vs. 2007 |
|--------------------------------------|-------------------------------------|-------------------------------------|
| Contributions from volume growth (a) | 4 pts | 3 pts |
| Net price realization and mix | 7 pts | 4 pts |
| Net sales growth | 11 pts | 7 pts |

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

In fiscal 2009, net sales for our U.S. Retail segment were \$10.1 billion, up 11 percent from fiscal 2008. Net price realization and mix added 7 percentage points of growth and volume on a tonnage basis contributed 4 percentage points of growth.

Net sales for this segment totaled \$9.1 billion in fiscal 2008 and \$8.5 billion in fiscal 2007. The growth in fiscal 2008 net sales was the result of a 4 percentage point benefit from net price realization and mix, as well as a 3 percentage point increase in volume in fiscal 2008 versus fiscal 2007, led by strong growth in our grain snacks and yogurt businesses.

All of our U.S. Retail divisions experienced net sales growth in fiscal 2009 as shown in the tables below:

U.S. Retail Net Sales by Division

| In Millions | Fiscal Year | | |
|------------------------------|--------------------|-------------|-------------|
| | 2009 | 2008 | 2007 |
| Big G | \$ 2,259.5 | \$ 2,028.0 | \$ 1,932.9 |
| Meals | 2,157.1 | 2,006.1 | 1,909.2 |
| Pillsbury | 1,869.8 | 1,673.4 | 1,591.4 |
| Yoplait | 1,468.9 | 1,293.1 | 1,170.7 |
| Snacks | 1,246.6 | 1,197.6 | 1,066.5 |
| Baking Products | 850.7 | 723.3 | 666.7 |
| Small Planet Foods and Other | 199.5 | 150.5 | 153.9 |
| Total | \$ 10,052.1 | \$ 9,072.0 | \$ 8,491.3 |

Table of Contents**U.S. Retail Change in Net Sales by Division**

| | Fiscal 2009 vs. 2008 | Fiscal 2008 vs. 2007 |
|--------------------|-------------------------------------|-------------------------------------|
| Big G | 11% | 5% |
| Meals | 8 | 5 |
| Pillsbury | 12 | 5 |
| Yoplait | 14 | 10 |
| Snacks | 4 | 12 |
| Baking Products | 18 | 8 |
| Small Planet Foods | 30 | 6 |
| Total | 11% | 7% |

In fiscal 2009, Big G cereals net sales increased 11 percent driven by growth across the portfolio, including gains on *MultiGrain Cheerios*, *Honey Nut Cheerios*, *Cinnamon Toast Crunch*, and the *Fiber One* cereals. Net sales for Meals grew 8 percent led by *Helper* dinner mixes, the new *Macaroni Grill* dinner mix line, and *Green Giant* frozen vegetables. Pillsbury net sales increased 12 percent led by *Totino's* pizza and *Pizza Rolls* snacks, *Pillsbury* refrigerated dough products, and new *Pillsbury Savorings* frozen appetizers. Yoplait net sales grew 14 percent led by contributions from *Yoplait Light*. Net sales for Snacks increased 4 percent, as gains in grain snacks including *Fiber One* bars and *Chex Mix* more than offset the reduction in sales from the divestiture of *Pop Secret* this year. Baking Products net sales grew 18 percent reflecting gains in *Betty Crocker* dessert mixes, *Bisquick* baking mix, and *Gold Medal* flour. Net sales for Small Planet Foods grew 30 percent including contributions from the *Lärabar* product line acquired in fiscal 2009.

For fiscal 2008, Big G cereals net sales grew 5 percent, driven by growth in core brands including *Cheerios* varieties and *Fiber One* cereals. Net sales for Meals grew by 5 percent led by *Progresso* ready-to-serve soups. Pillsbury net sales increased 5 percent led by *Totino's* frozen pizza and hot snacks and *Pillsbury* refrigerated baked goods. Yoplait net sales grew 10 percent due to growth on *Yoplait Light* yogurt and new products including *Yo-Plus* and *Fiber One* yogurt. Net sales for Snacks grew 12 percent led by increased sales for *Nature Valley* grain snacks and *Fiber One* bars. Baking Products net sales grew 8 percent due to increases in *Betty Crocker* cookie mixes, *Gold Medal* flour, and the launch of *Warm Delights* Minis.

Segment operating profit of \$2.2 billion in fiscal 2009 improved \$237 million, or 12 percent, over fiscal 2008. Net price realization and mix increased segment operating profit by \$596 million, and volume growth increased segment operating profit by \$146 million. These were partially offset by increased supply chain input costs of \$338 million, a 19 percent increase in consumer marketing expense consistent with our brand-building strategy, and higher administrative costs. In fiscal 2008, voluntary product recalls reduced segment operating profit by \$24 million.

Segment operating profit of \$2.0 billion in fiscal 2008 improved \$75 million, or 4 percent, over fiscal 2007. Net price realization and mix increased segment operating profit by \$317 million, and volume growth increased segment operating profit by \$95 million. These were offset by increased supply chain input costs of \$181 million, higher administrative costs, and a 12 percent increase in consumer marketing expense consistent with our brand-building strategy. Voluntary product recalls reduced segment operating profit by \$24 million.

INTERNATIONAL SEGMENT

In Canada, our major product categories are ready-to-eat cereals, shelf stable and frozen vegetables, dry dinners, refrigerated and frozen dough products, dessert and baking mixes, frozen pizza snacks, and grain, fruit and savory snacks. In markets outside North America, our product categories include super-premium ice cream, grain snacks, shelf stable and frozen vegetables, dough products, and dry dinners. Our International 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. These international businesses are managed through 34 sales and marketing offices.

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

Components of International Net Sales Growth

| | Fiscal 2009 vs. 2008 | Fiscal 2008 vs. 2007 |
|--------------------------------------|-------------------------------------|-------------------------------------|
| Contributions from volume growth (a) | 1 pts | 6 pts |
| Net price realization and mix | 9 pts | 5 pts |
| Foreign currency exchange | -9 pts | 9 pts |
| Net sales growth | 1 pts | 20 pts |

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

For fiscal 2009, net sales for our International segment were \$2,591 million, up 1 percent from fiscal 2008. This growth was driven by 9 percentage points of net price realization and mix and 1 percentage point of volume growth, offset by 9 percentage points of unfavorable foreign exchange.

Net sales totaled \$2,559 million in fiscal 2008, up 20 percent from \$2,123 million in fiscal 2007. The growth in fiscal 2008 was driven mainly by 9 percentage points of favorable foreign exchange, in addition to a 6 percentage point increase in volume growth and a 5 percentage point increase in net price realization and mix.

Net sales growth for our International segment by geographic region is shown in the following tables:

International Net Sales by Geographic Region

| In Millions | Fiscal Year | | |
|--------------------|--------------------|-------------|-------------|
| | 2009 | 2008 | 2007 |
| Europe | \$ 857.8 | \$ 898.5 | \$ 756.3 |
| Canada | 651.8 | 697.0 | 610.4 |
| Asia/Pacific | 635.8 | 577.4 | 462.0 |
| Latin America | 446.0 | 385.9 | 294.7 |
| Total | \$ 2,591.4 | \$ 2,558.8 | \$ 2,123.4 |

International Change in Net Sales by Geographic Region

| | Fiscal 2009 vs. 2008 | Fiscal 2008 vs. 2007 |
|---------------|-------------------------------------|-------------------------------------|
| Europe | -5% | 19% |
| Canada | -6 | 14 |
| Asia/Pacific | 10 | 25 |
| Latin America | 16 | 31 |

| | | |
|-------|----|-----|
| Total | 1% | 20% |
|-------|----|-----|

In fiscal 2009, net sales in Europe decreased by 5 percent driven by 9 points of unfavorable foreign currency exchange, partially offset by net sales growth of *Old El Paso* across Europe and dough products in the United Kingdom. Net sales in Canada decreased 6 percent due to 13 points of unfavorable foreign currency exchange partially offset by growth from cereal products and *Fiber One* bars. Net sales in the Asia/Pacific region increased by 10 percent, including sales growth for *Häagen-Dazs* and *Wanchai Ferry* brands in China, and increased sales of *Old El Paso* and *Latina* in Australia. Latin America net sales increased 16 percent due to net price realization and the sales volume recovery in Argentina after a fire destroyed our *La Salteña* manufacturing facility in fiscal 2008.

In fiscal 2008, net sales in Europe increased 19 percent reflecting performance from *Old El Paso* and *Häagen-Dazs* in the United Kingdom. Continued success from the launch of *Nature Valley* granola bars in several European markets and favorable foreign exchange also contributed to the region's growth. Net sales in Canada increased 14 percent including favorable foreign exchange. In the Asia/Pacific region, net sales increased 25 percent led by

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double-digit growth for *Häagen-Dazs* ice cream and *Wanchai Ferry* dumplings and meal kits in China. In Latin America, net sales increased 31 percent led by *Diablitos* canned meat spread in Venezuela and net price realization in other countries, partially offset by lost sales following our plant fire in Argentina.

Segment operating profit for fiscal 2009 declined 3 percent to \$261 million from \$269 million in the same period a year ago driven by a 14 percentage point decrease due to unfavorable foreign exchange. Increases in net price realization and mix and volume growth offset increases in supply chain input costs of \$16 million and a 3 percent increase in consumer marketing expense.

Segment operating profit for fiscal 2008 grew to \$269 million, up 25 percent from fiscal 2007, with foreign currency exchange contributing 9 percentage points of that growth. Segment operating profit increased by \$38 million from higher volumes. Net price realization and mix more than offset higher supply chain input costs, a 22 percent increase in consumer marketing expense, and administrative cost increases.

BAKERIES AND FOODSERVICE SEGMENT

In our Bakeries and Foodservice segment we sell branded ready-to-eat cereals, snacks, dinner and side dish products, refrigerated and soft-serve frozen yogurt, frozen dough products, branded baking mixes, and custom food items. Our customers include foodservice distributors and operators, convenience stores, vending machine operators, quick service and other restaurant operators, and business and school cafeterias in the United States and Canada. In addition, we market mixes and unbaked and fully baked frozen dough products throughout the United States and Canada to retail, supermarket, and wholesale bakeries.

The components of the change in net sales are shown in the following table:

Components of Bakeries and Foodservice Net Sales Growth

| | Fiscal 2009 vs. 2008 | Fiscal 2008 vs. 2007 |
|--------------------------------------|-------------------------------------|-------------------------------------|
| Contributions from volume growth (a) | -6 pts | -3 pts |
| Net price realization and mix | 7 pts | 14 pts |
| Foreign currency exchange | Flat | Flat |
| Net sales growth | 1 pts | 11 pts |

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

For fiscal 2009, net sales for our Bakeries and Foodservice segment increased 1 percent to \$2,048 million. The increase in fiscal 2009 was driven by 7 percentage points of net price realization and mix. This was offset by a 6 percentage point decrease in volume, mainly in the distributors and restaurants customer channel, including the effects of divested product lines.

For fiscal 2008, net sales for our Bakeries and Foodservice segment increased to \$2,021 million. The growth in fiscal 2008 net sales was driven by 14 percentage points of benefit from net price realization and mix, as we took price increases to offset higher supply chain input costs. This was partially offset by a 3 percentage point decline in volume. Net sales growth for our Bakeries and Foodservice segment by customer segment is shown in the following tables:

Bakeries and Foodservice Net Sales by Customer Segment

| In Millions | Fiscal Year | | |
|--------------------|--------------------|-------------|-------------|
| | 2009 | 2008 | 2007 |

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| | | | |
|--------------------------------|------------|------------|------------|
| Distributors and restaurants | \$ 890.1 | \$ 902.0 | \$ 864.8 |
| Bakery channels | 950.8 | 927.8 | 780.5 |
| Convenience stores and vending | 206.9 | 191.5 | 181.5 |
| Total | \$ 2,047.8 | \$ 2,021.3 | \$ 1,826.8 |

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Table of Contents**Bakeries and Foodservice Change in Net Sales by Customer Segment**

| | Fiscal 2009 vs. 2008 | Fiscal 2008 vs. 2007 |
|--------------------------------|-------------------------------------|-------------------------------------|
| Distributors and restaurants | -1% | 4% |
| Bakery channels | 2 | 19 |
| Convenience stores and vending | 8 | 6 |
| Total | 1% | 11% |

In fiscal 2009, segment operating profits were \$171 million, up 3 percent from \$165 million in fiscal 2008. The increase was due to margin expansion and HMM efforts which offset significant volume declines and lower grain merchandising activities.

Segment operating profits were \$165 million in fiscal 2008, up 12 percent from \$148 million in fiscal 2007. The increase for the year was driven by grain merchandising activities and benefits from prior restructuring activities. Net price realization and mix offset higher supply chain input costs and a decrease in volume.

UNALLOCATED CORPORATE ITEMS

Unallocated corporate items include variances to planned corporate overhead expenses, variances to planned domestic employee benefits and incentives, all stock compensation costs, annual contributions to the General Mills Foundation, and other items that are not part of our measurement of segment operating performance. This includes gains and losses from mark-to-market valuation of certain commodity positions until passed back to our operating segments in accordance with our policy as discussed in Note 2 of the Consolidated Financial Statements in Item 8 of this report. For fiscal 2009, unallocated corporate items totaled \$361 million of expense compared to \$157 million of expense for the same period last year. The \$204 million increase in expense was driven primarily by a \$176 million net increase in expense related to mark-to-market valuations of certain commodity positions and grain inventories. We also recorded write downs of \$35 million related to various corporate investments in fiscal 2009, compared to a net gain of \$16 million in fiscal 2008, and a \$16 million increase in contributions to the General Mills Foundation, offset by a fiscal 2009 gain from an insurance settlement as discussed above under the heading Fiscal 2009 Consolidated Results of Operations .

Unallocated corporate items were \$157 million in fiscal 2008 compared to \$163 million in fiscal 2007. During fiscal 2008, we recognized a net gain of \$57 million related to the mark-to-market valuation of certain commodity positions and a previously deferred gain of \$11 million on the sale of a corporate investment. These gains were offset by \$26 million of unfavorable foreign exchange, \$18 million of charges to cost of sales, primarily depreciation on long-lived assets associated with previously announced restructuring actions, and \$9 million of expense related to the remarketing of minority interests in our GMC subsidiary.

JOINT VENTURES

In addition to our consolidated operations, we participate in several joint ventures.

International Joint Ventures

We have a 50 percent equity interest in CPW, which manufactures and markets ready-to-eat cereal products in more than 130 countries and republics outside the United States and Canada. CPW also markets cereal bars in several European countries and manufactures private label cereals for customers in the United Kingdom. We have guaranteed a portion of CPW's debt and its pension obligation in the United Kingdom. Results from our CPW joint venture are reported for the 12 months ended March 31.

On July 14, 2006, CPW acquired the Uncle Tobys cereal business in Australia for \$386 million. We funded our 50 percent share of the purchase price by making additional advances to and equity contributions in CPW totaling \$135 million (classified as investments in affiliates, net on the Consolidated Statements of Cash Flows) and by acquiring a 50 percent undivided interest in certain intellectual property for \$58 million (classified as acquisitions on

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the Consolidated Statements of Cash Flows). We funded the advances to and our equity contribution in CPW from cash generated by our international operations, including our international joint ventures.

We also have a 50 percent equity interest in Häagen-Dazs Japan, Inc. This joint venture manufactures, distributes, and markets *Häagen-Dazs* ice cream products and frozen novelties. In fiscal 2007, we changed the reporting period for this joint venture. Accordingly, fiscal 2007 includes only 11 months of results from this joint venture compared to 12 months in fiscal 2009 and fiscal 2008.

Domestic Joint Venture

During fiscal 2008, the 8th Continent soy milk business was sold. We recorded a \$2 million gain in fiscal 2008 reflecting our 50 percent share of the after-tax gain on the sale. We will record approximately \$1 million of additional gain in the first quarter of fiscal 2010 if certain conditions related to the sale are satisfied.

Our share of after-tax joint venture earnings decreased from \$111 million in fiscal 2008 to \$92 million in fiscal 2009. In fiscal 2009, earnings were reduced by a \$6 million deferred income tax valuation allowance. In fiscal 2008, earnings included \$16 million for our share of a gain on the sale of a CPW property in the United Kingdom offset by restructuring expenses of \$8 million. Also, fiscal 2008 results included \$2 million for our share of a gain on the sale of the 8th Continent soymilk business.

Our after-tax share of CPW restructuring, impairment, and other exit costs was as follows:

| Expense (Income), in Millions | Fiscal Year | | |
|--|-------------|-----------|--------|
| | 2009 | 2008 | 2007 |
| Gain on sale of property | \$ | \$ (15.9) | \$ |
| Depreciation associated with restructured assets | | 4.5 | 8.2 |
| Other charges resulting from restructuring actions | | 3.2 | |
| Total | \$ | \$ (8.2) | \$ 8.2 |

Our share of after-tax joint venture earnings increased from \$73 million in fiscal 2007 to \$111 million in fiscal 2008. This growth was largely driven by strong sales growth, favorable foreign exchange, and our share of the gain from the sale of a CPW property.

The change in net sales for each joint venture is set forth in the following table:

Joint Venture Change in Net Sales

| | Fiscal 2009 vs. 2008 | Fiscal 2008 vs. 2007 |
|--|----------------------------|----------------------------|
| CPW | 2% | 23% |
| Häagen-Dazs (12 months in fiscal 2009 and fiscal 2008 and 11 months in fiscal 2007) | 2 | 16 |
| Joint Ventures | 2% | 21% |

For fiscal 2009, CPW net sales grew by 2 percent reflecting higher volume and net price realization, slightly offset by unfavorable foreign currency exchange. Net sales for our Häagen-Dazs joint venture increased 2 percent from fiscal 2008 as a result of favorable foreign exchange of 11 percentage points and positive net price realization, offset by a decrease in volume.

For fiscal 2008, CPW net sales grew by 23 percent reflecting higher volume, key new product introductions including *Oats & More* in the United Kingdom and *Nesquik Duo* across a number of regions, favorable foreign currency effects, and the benefit of a full year of sales from the fiscal 2007 Uncle Tobys acquisition. Net sales for our Häagen-Dazs

joint venture increased 16 percent from fiscal 2007, as a result of favorable foreign exchange and introductory product shipments.

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

Selected Cash Flows from Joint Ventures

| Inflow (Outflow), in Millions | Fiscal Year | | |
|-------------------------------|-------------|-----------|------------|
| | 2009 | 2008 | 2007 |
| Advances to joint ventures | \$ (14.2) | \$ (20.6) | \$ (141.4) |
| Repayments of advances | 22.4 | 95.8 | 38.0 |
| Dividends received | 68.5 | 108.7 | 45.2 |

IMPACT OF INFLATION

We have experienced high levels of input cost inflation since fiscal 2006. Our gross margin performance in fiscal 2009 reflects the impact of significant input cost inflation, primarily from commodities and energy inputs. We expect the rate of inflation to moderate in fiscal 2010. We attempt to minimize the effects of inflation through appropriate planning and operating practices. Our risk management practices are discussed in Item 7A of this report.

LIQUIDITY

The primary source of our liquidity is cash flow from operations. Over the most recent three-year period, our operations have generated \$5.3 billion in cash. A substantial portion of this operating cash flow has been returned to stockholders through share repurchases and dividends. We also use this source of liquidity to fund our capital expenditures. We typically use a combination of cash, notes payable, and long-term debt to finance acquisitions and major capital expansions.

Cash Flows from Operations

| In Millions | Fiscal Year | | |
|--|-------------|------------|------------|
| | 2009 | 2008 | 2007 |
| Net earnings | \$ 1,304.4 | \$ 1,294.7 | \$ 1,143.9 |
| Depreciation and amortization | 453.6 | 459.2 | 417.8 |
| After-tax earnings from joint ventures | (91.9) | (110.8) | (72.7) |
| Stock-based compensation | 117.7 | 133.2 | 127.1 |
| Deferred income taxes | 215.8 | 98.1 | 26.0 |
| Tax benefit on exercised options | (89.1) | (55.7) | (73.1) |
| Distributions of earnings from joint ventures | 68.5 | 108.7 | 45.2 |
| Pension and other postretirement benefit plan contributions | (220.3) | (14.2) | (60.6) |
| Pension and other postretirement benefit plan (income) expense | (27.5) | 5.5 | 5.6 |
| Divestitures (gain), net | (84.9) | | |
| Gain on insurance settlement | (41.3) | | |
| Restructuring, impairment, and other exit costs (income) | 31.3 | (1.7) | 39.1 |
| Changes in current assets and liabilities | 176.9 | (126.7) | 149.1 |
| Other, net | 15.0 | (60.4) | 3.8 |
| Net cash provided by operating activities | \$ 1,828.2 | \$ 1,729.9 | \$ 1,751.2 |

In fiscal 2009, our operations generated \$1,828 million of cash compared to \$1,730 million in fiscal 2008, primarily reflecting a \$304 million reduction in the use of working capital in fiscal 2009. Inventories used \$137 million less cash and accounts payable used \$242 million more cash year over year due to decreases in grain prices and grain inventory levels in fiscal 2009. Other current liabilities were a \$136 million increased source of cash, primarily due to lower cash taxes paid and higher consumer marketing accruals. Other current assets provided \$96 million more cash, primarily due to changes in currency and commodity derivative receivables. Accounts receivable provided

\$176 million more cash driven by sales timing shifts and improvements in collections in certain international

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markets. The favorable change in working capital was offset by a \$200 million voluntary contribution made to our principal domestic pension plans.

We strive to grow a key measure, core working capital, at or below our growth in net sales. For fiscal 2009, core working capital declined 1 percent, compared to net sales growth of 8 percent, largely driven by a decrease in inventory in fiscal 2009. In fiscal 2008, core working capital grew 12 percent, more than net sales growth of 10 percent, and in fiscal 2007, core working capital grew 4 percent, less than net sales growth of 6 percent. Our cash flows from operations decreased \$21 million from fiscal 2007 to fiscal 2008 as a \$151 million increase in net earnings and a \$72 million effect of changes in deferred income taxes were more than offset by the \$276 million increase in the use of cash for working capital.

Cash Flows from Investing Activities

| In Millions | 2009 | Fiscal Year 2008 | 2007 |
|--|------------|---------------------|------------|
| Purchases of land, buildings, and equipment | \$ (562.6) | \$ (522.0) | \$ (460.2) |
| Acquisitions | | 0.6 | (83.4) |
| Investments in affiliates, net | 5.9 | 64.6 | (100.5) |
| Proceeds from disposal of land, buildings, and equipment | 4.1 | 25.9 | 13.8 |
| Proceeds from divestitures of product lines | 244.7 | | 13.5 |
| Proceeds from insurance settlement | 41.3 | | |
| Other, net | (22.3) | (11.5) | 19.7 |
| Net cash used by investing activities | \$ (288.9) | \$ (442.4) | \$ (597.1) |

In fiscal 2009, cash used by investing activities decreased by \$154 million from fiscal 2008 primarily due to proceeds of \$245 million from the sale of certain product lines. We also received insurance proceeds of \$41 million in the third quarter of fiscal 2009 from the settlement with the insurance carrier covering the loss at our *La Salteña* pasta manufacturing facility in Argentina. These proceeds will offset the capital expenditures required to replace the manufacturing facility that was destroyed by fire in fiscal 2008.

Capital expenditures in fiscal 2009 increased \$41 million from the same period last year as we increased manufacturing capacity for our cereal, snack bars, soup, and yogurt products.

In fiscal 2008, cash used by investing activities decreased by \$155 million from fiscal 2007. During fiscal 2008, we sold our former production facilities in Vallejo, California and Allentown, Pennsylvania, while in fiscal 2007 we sold our frozen pie product line, including a plant in Rochester, New York, and our par-baked bread product line, including plants in Chelsea, Massachusetts and Tempe, Arizona. These sale proceeds were offset by the funding of our share of CPW's acquisition of the Uncle Tobys cereal business in Australia (reflected in acquisitions and investments in affiliates, net), and our acquisition of Saxby Bros. Limited and our master franchisee of *Häagen-Dazs* shops in Greece. In addition, capital investment for land, buildings, and equipment increased by \$62 million, as we continued to increase manufacturing capacity for our snack bars and yogurt products and began consolidating manufacturing for our *Old El Paso* product line.

We expect capital expenditures to increase to approximately \$630 million in fiscal 2010, including initiatives that will: increase manufacturing capacity for *Yoplait* yogurt, *Totino's Pizza Rolls* pizza snacks, and cereals; continue productivity increases throughout the supply chain; rebuild the pasta plant in Argentina that was destroyed by fire in fiscal 2008; and expand International production capacity for *Wanchai Ferry* products and *Old El Paso* tortillas.

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| In Millions | Fiscal Year | | |
|---|---------------------|---------------------|---------------------|
| | 2009 | 2008 | 2007 |
| Change in notes payable | \$ (1,390.5) | \$ 946.6 | \$ (280.4) |
| Issuance of long-term debt | 1,850.0 | 1,450.0 | 2,650.0 |
| Payment of long-term debt | (370.3) | (1,623.4) | (2,323.2) |
| Settlement of Lehman Brothers forward purchase contract | | 750.0 | |
| Repurchase of Series B-1 limited membership interests in GMC | | (843.0) | |
| Repurchase of General Mills Capital, Inc. preferred stock | | (150.0) | |
| Proceeds from sale of Class A limited membership interests in GMC | | 92.3 | |
| Proceeds from common stock issued on exercised options | 305.2 | 191.4 | 317.4 |
| Tax benefit on exercised options | 89.1 | 55.7 | 73.1 |
| Purchases of common stock for treasury | (1,296.4) | (1,432.4) | (1,320.7) |
| Dividends paid | (579.5) | (529.7) | (505.2) |
| Other, net | (12.1) | (0.5) | (9.1) |
| Net cash used by financing activities | \$ (1,404.5) | \$ (1,093.0) | \$ (1,398.1) |

Net cash used by financing activities increased by \$312 million in fiscal 2009.

In January 2009, we sold \$1.2 billion aggregate principal amount of our 5.65 percent notes due 2019. In August 2008, we sold \$700 million aggregate principal amount of our 5.25 percent notes due 2013. The proceeds of these notes were used to repay a portion of our outstanding commercial paper. Interest on the notes is payable semi-annually in arrears. These notes may be redeemed at our option at any time for a specified make-whole amount. These notes are senior unsecured, unsubordinated obligations that include a change of control repurchase provision.

On October 15, 2007, we settled the forward contract established with Lehman Brothers in October 2004 in conjunction with the issuance by Lehman Brothers of \$750 million of notes that were mandatorily exchangeable for shares of our common stock. In settlement of that forward contract, we issued 14 million shares of our common stock and received \$750 million in cash from Lehman Brothers. We used the cash to reduce outstanding commercial paper balances.

On August 7, 2007, we repurchased for a net amount of \$843 million all of the outstanding Series B-1 Interests in GMC as part of a required remarketing of those interests. The purchase price reflected the Series B-1 Interests' original capital account balance of \$835 million and \$8 million of capital account appreciation attributable and paid to the third party holder of the Series B-1 Interests. The capital appreciation paid to the third party holder of the Series B-1 Interests was recorded as a reduction to retained earnings, a component of stockholders' equity, on our Consolidated Balance Sheets, and reduced net earnings available to common stockholders in our basic and diluted EPS calculations. In April 2007, we issued \$1.15 billion of floating rate convertible senior notes. In April 2008, holders of \$1.14 billion of those notes tendered them to us for repurchase. In April 2009, we repurchased all of the remaining outstanding notes. We issued commercial paper to fund the repurchases.

We and the third party holder of all of GMC's outstanding Class A limited membership interests (Class A Interests) agreed to reset, effective on June 28, 2007, the preferred rate of return applicable to the Class A Interests to the sum of three-month LIBOR plus 65 basis points. On June 28, 2007, we sold \$92 million of additional Class A Interests to the same third party. There was no gain or loss associated with these transactions. As of May 31, 2009, the carrying value of all outstanding Class A Interests on our Consolidated Balance Sheets was \$242 million, and the capital account balance of the Class A Interests upon which preferred distributions are calculated was \$248 million.

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On June 28, 2007, we repurchased for \$150 million all of the outstanding Series A preferred stock of our subsidiary General Mills Capital, Inc. using proceeds from the sale of the Class A Interests and commercial paper. There was no gain or loss associated with this repurchase.

During fiscal 2009, we repurchased 20 million shares of our common stock for an aggregate purchase price of \$1,296 million. During fiscal 2008, we repurchased 24 million shares of our common stock for an aggregate purchase price of \$1,368 million. During fiscal 2007, we repurchased 25 million shares of our common stock for an aggregate purchase price of \$1,385 million, of which \$64 million settled after the end of our fiscal year. In fiscal 2007, our Board of Directors authorized the repurchase of up to 75 million shares of our common stock. Purchases under the authorization can be made in the open market or in privately negotiated transactions, including the use of call options and other derivative instruments, Rule 10b5-1 trading plans, and accelerated repurchase programs. The authorization has no specified termination date.

Dividends paid in fiscal 2009 totaled \$580 million, or \$1.72 per share, a 10 percent per share increase from fiscal 2008. Dividends paid in fiscal 2008 totaled \$530 million, or \$1.57 per share, a 9 percent per share increase from fiscal 2007 dividends of \$1.44 per share. Our Board of Directors approved a quarterly dividend increase from \$0.43 per share to \$0.47 per share effective with the dividend payable on August 1, 2009.

CAPITAL RESOURCES

Total capital consisted of the following:

| In Millions | May 31, 2009 | May 25, 2008 |
|-----------------------------------|-------------------------|-------------------------|
| Notes payable | \$ 812.2 | \$ 2,208.8 |
| Current portion of long-term debt | 508.5 | 442.0 |
| Long-term debt | 5,754.8 | 4,348.7 |
| Total debt | 7,075.5 | 6,999.5 |
| Minority interests | 242.3 | 242.3 |
| Stockholders' equity | 5,174.7 | 6,215.8 |
| Total capital | \$ 12,492.5 | \$ 13,457.6 |

The decline in total capital from fiscal 2008 to fiscal 2009 was primarily due to actuarial losses on our defined benefit plans recorded in accumulated other comprehensive income (loss).

The following table details the fee-paid committed and uncommitted credit lines we had available as of May 31, 2009:

| In Billions | Amount |
|---|---------------|
| Credit facility expiring: | |
| October 2010 | \$ 1.1 |
| October 2012 | 1.8 |
| Total committed credit facilities | 2.9 |
| Uncommitted credit facilities | 0.4 |
| Total committed and uncommitted credit facilities | \$ 3.3 |

To ensure availability of funds, we maintain bank credit lines sufficient to cover our outstanding short-term borrowings. Commercial paper is a continuing source of short-term financing. We issue commercial paper in the United States, Canada, and Europe. Our commercial paper borrowings are supported by \$2.9 billion of fee-paid

committed credit lines, consisting of a \$1.8 billion facility expiring in October 2012 and a \$1.1 billion facility expiring in October 2010. We also have \$0.4 billion in uncommitted credit lines that support our foreign operations. As of May 31, 2009, there were no amounts outstanding on the fee-paid committed credit lines and \$135 million

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was drawn on the uncommitted lines. The credit facilities contain several covenants with which we were in compliance as of May 31, 2009, including a requirement to maintain a fixed charge coverage ratio of at least 2.5. Certain of our long-term debt agreements and our minority interests contain restrictive covenants. As of May 31, 2009, we were in compliance with all of these covenants.

We have \$508 million of long-term debt maturing in the next 12 months that is classified as current. We believe that cash flows from operations, together with available short- and long-term debt financing, will be adequate to meet our liquidity and capital needs for at least the next 12 months.

As of May 31, 2009, our total debt, including the impact of derivative instruments designated as hedges, was 88 percent in fixed-rate and 12 percent in floating-rate instruments, compared to 66 percent in fixed-rate and 34 percent in floating-rate instruments on May 25, 2008. The change in the fixed-rate and floating-rate percentages was driven by the refinancing of \$1.9 billion of commercial paper with fixed-rate notes during fiscal 2009.

We have an effective shelf registration statement on file with the Securities and Exchange Commission (SEC) covering the sale of debt securities. The shelf registration statement will expire in December 2011.

Growth in return on average total capital is one of our key performance measures (see the Non-GAAP Measures section below for our discussion of this measure, which is not defined by GAAP). Return on average total capital increased from 11.8 percent in fiscal 2008 to 12.3 percent in fiscal 2009 primarily due to increased earnings and improvements in core working capital. We also believe important measures of financial strength are the ratio of fixed charge coverage and the ratio of operating cash flow to debt. Our fixed charge coverage ratio in fiscal 2009 was 5.31 compared to 4.87 in fiscal 2008. The measure increased from fiscal 2008 as earnings before income taxes and after-tax earnings from joint ventures increased by \$127 million and fixed charges decreased by \$31 million. Our operating cash flow to debt ratio increased 1.1 points to 25.8 percent in fiscal 2009, driven by a higher rate of increase in cash flows from operations than the rate of increase in our year-end debt balance.

Currently, Standard and Poor's (S&P) has ratings of BBB+ on our long-term debt and A-2 on our commercial paper. Moody's Investors Services (Moody's) has ratings of Baa1 for our long-term debt and P-2 for our commercial paper. Fitch Ratings (Fitch) rates our long-term debt BBB+ and our commercial paper F-2. These ratings are not a recommendation to buy, sell or hold securities, are subject to revision or withdrawal at any time by the rating organization, and should be evaluated independently of any other rating.

In April 2002, we contributed assets with an aggregate fair market value of \$4.2 billion to our subsidiary GMC. The contributed assets consist primarily of manufacturing assets and intellectual property associated with the production and retail sale of Big G cereals, *Progresso* soups, and *Old El Paso* products in the United States. In exchange for the contribution of these assets, GMC issued its managing membership interest and its limited preferred membership interests to certain of our wholly owned subsidiaries. We continue to hold the entire managing membership interest, and therefore direct the operations of GMC. Other than the right to consent to certain actions, holders of the limited preferred membership interests do not participate in the management of GMC. We currently hold all interests in GMC other than the Class A Interests.

The holder of the Class A Interests receives quarterly preferred distributions from available net income based on the application of a floating preferred return rate, currently equal to the sum of three-month LIBOR plus 65 basis points, to the holder's capital account balance established in the most recent mark-to-market valuation (currently \$248 million). The Fifth Amended and Restated Limited Liability Company Agreement of GMC requires that the preferred return rate of the Class A Interests be adjusted every five years through a negotiated agreement between the Class A Interest holder and GMC, or through a remarketing auction. The next remarketing is scheduled to occur in June 2012 and thereafter in five-year intervals. Upon a failed remarketing, the preferred return rate over three-month LIBOR will be increased by 75 basis points until the next remarketing, which will occur in 3 month intervals until a successful remarketing occurs or the managing member purchases the Class A Interests. The managing member may at any time elect to purchase all of the Class A Interests for an amount equal to the holder's capital account balance (as adjusted in a mark-to-market valuation), plus any accrued but unpaid preferred returns and the prescribed make-whole amount.

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Holders of the Class A Interests may initiate a liquidation of GMC under certain circumstances, including, without limitation, the bankruptcy of GMC or its subsidiaries, GMC's failure to deliver the preferred distributions on the Class A Interests, GMC's failure to comply with portfolio requirements, breaches of certain covenants, lowering of our senior debt rating below either Baa3 by Moody's or BBB- by S&P, and a failed attempt to remarket the Class A Interests as a result of GMC's failure to assist in such remarketing. In the event of a liquidation of GMC, each member of GMC will receive the amount of its then current capital account balance. The managing member may avoid liquidation by exercising its option to purchase the Class A Interests.

For financial reporting purposes, the assets, liabilities, results of operations, and cash flows of GMC are included in our Consolidated Financial Statements. The return to the third party investor is reflected in net interest in the Consolidated Statements of Earnings. The third party investor's interests in GMC are classified as minority interests on our Consolidated Balance Sheets. As discussed in the Recently Issued Accounting Pronouncements section below, we expect our adoption of Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment to ARB No. 51 (SFAS 160), in fiscal 2010 to change the financial statement presentation of these interests in GMC.

As discussed above, we may exercise our option to purchase the Class A Interests for consideration equal to the then current capital account value, plus any unpaid preferred return and the prescribed make-whole amount. If we purchase these interests, any change in the unrelated third party investor's capital account from its original value will be charged directly to retained earnings and will increase or decrease the net earnings used to calculate EPS in that period.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

As of May 31, 2009, we have issued guarantees and comfort letters of \$654 million for the debt and other obligations of consolidated subsidiaries, and guarantees and comfort letters of \$282 million for the debt and other obligations of non-consolidated affiliates, mainly CPW. In addition, off-balance sheet arrangements are generally limited to the future payments under non-cancelable operating leases, which totaled \$351 million as of May 31, 2009.

As of May 31, 2009, we had invested in three variable interest entities (VIEs). We have an interest in a contract manufacturer at our former facility in Geneva, Illinois. We are the primary beneficiary (PB) and have consolidated this entity. This entity had property and equipment with a carrying value of \$25 million and long-term debt of \$26 million as of May 31, 2009. The liabilities recognized as a result of consolidating this entity do not represent additional claims on our general assets. We also have an interest in a contract manufacturer in Greece that is a VIE. Although we are the PB, we have not consolidated this entity because it is not practical to do so and it is not material to our results of operations, financial condition, or liquidity as of and for the year ended May 31, 2009. This entity had assets of \$5 million and liabilities of \$1 million as of May 31, 2009. We are not the PB of the remaining VIE. Our maximum exposure to loss from the three VIEs is limited to the \$26 million of long-term debt of the contract manufacturer in Geneva, Illinois and our \$2 million equity investment in the VIE of which we are not the PB. We have not provided financial or other support to these VIEs during the current period nor are there arrangements related to these VIEs that could require us to provide financial support in the future.

Our defined benefit plans in the United States are subject to the requirements of Pension Protection Act (PPA). The PPA revised the basis and methodology for determining defined benefit plan minimum funding requirements as well as maximum contributions to and benefits paid from tax-qualified plans. Most of these provisions were applicable to our domestic defined benefit pension plans in fiscal 2009 on a phased-in basis. Although not required under the provisions of the PPA, we voluntarily contributed \$200 million to our principal defined benefit plans in fiscal 2009. We do not expect to make any contributions to our domestic plans in fiscal 2010. Actual fiscal 2010 contributions could exceed our current projections, and may be influenced by our decision to undertake discretionary funding of our benefit trusts or by changes in regulatory requirements. Additionally, our projections concerning timing of the PPA funding requirements are subject to change and may be influenced by factors such as general market conditions affecting trust asset performance, interest rates, and our future decisions regarding certain elective provisions of the PPA.

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

| In Millions | Payments Due by Fiscal Year | | | | 2015 and Thereafter |
|---------------------------------|-----------------------------|------------|------------|------------|------------------------|
| | Total | 2010 | 2011 - 12 | 2013 - 14 | |
| Long-term debt (a) | \$ 6,275.3 | \$ 504.3 | \$ 1,356.9 | \$ 1,513.8 | \$ 2,900.3 |
| Accrued interest | 182.1 | 182.1 | | | |
| Operating leases (b) | 351.3 | 87.6 | 131.8 | 75.0 | 56.9 |
| Capital leases | 15.9 | 5.0 | 6.6 | 4.3 | |
| Purchase obligations (c) | 2,289.4 | 1,791.1 | 368.3 | 82.1 | 47.9 |
| Total contractual obligations | 9,114.0 | 2,570.1 | 1,863.6 | 1,675.2 | 3,005.1 |
| Other long-term obligations (d) | 1,280.6 | | | | |
| Total long-term obligations | \$ 10,394.6 | \$ 2,570.1 | \$ 1,863.6 | \$ 1,675.2 | \$ 3,005.1 |

(a) Amounts represent the expected cash payments of our long-term debt and do not include \$14 million for capital leases or \$26 million for unamortized bond premiums or discounts.

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

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

(d) The fair value of our interest rate and equity swaps with a payable position to the counterparty was \$260 million as of May 31, 2009, based on fair market values as of that date. Future changes in market values will impact the amount of cash ultimately paid or received to settle those instruments in the future. Other long-term obligations mainly consist of liabilities for uncertain income tax positions, accrued compensation and benefits, including the underfunded status of certain of our defined benefit pension, other postretirement, and postemployment plans, and miscellaneous liabilities. We expect to pay \$19 million of benefits from our unfunded postemployment benefit plans and \$13 million of deferred compensation in fiscal 2010. We are unable to reliably estimate the amount of these payments beyond fiscal 2010. As of May 31, 2009, our total liability for uncertain tax positions and the associated accrued interest and penalties was \$720 million as of the end of our fiscal year. We expect to pay approximately \$157 million of tax liabilities and accrued interest in the next 12 months, including a portion of our potential liability for the matter resolved by the U.S. Court of Appeals discussed within this MD&A. While fiscal years 2007 and 2008 are currently under examination by the Internal Revenue Service (IRS), we are not able to reasonably estimate the timing of future cash flows beyond 12 months due to uncertainties in the timing of this and other tax audit outcomes.

SIGNIFICANT ACCOUNTING ESTIMATES

For a complete description of our significant accounting policies, see Note 2 to the Consolidated Financial Statements in Item 8 of this report. Our significant accounting estimates are those that have a meaningful impact on the reporting of our financial condition and results of operations. These estimates include our accounting for promotional expenditures, valuation of long-lived assets, intangible assets, stock-based compensation, income taxes, and defined benefit pension, other postretirement and postemployment benefits.

Promotional Expenditures

Our promotional activities are conducted through our customers and directly or indirectly with end consumers. These activities include: payments to customers to perform merchandising activities on our behalf, such as advertising or in-store displays; discounts to our list prices to lower retail shelf prices; payments to gain distribution

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of new products; coupons, contests, and other incentives; and media and advertising expenditures. The media and advertising expenditures are recognized as expense when the advertisement airs. The cost of payments to customers and other consumer activities are recognized as the related revenue is recorded, which generally precedes the actual cash expenditure. The recognition of these costs requires estimation of customer participation and performance levels. These estimates are made based on the forecasted customer sales, the timing and forecasted costs of promotional activities, and other factors. Differences between estimated expenses and actual costs are normally insignificant and are recognized as a change in management estimate in a subsequent period. Our accrued trade, coupon, and consumer marketing liabilities were \$474 million as of May 31, 2009, and \$446 million as of May 25, 2008. Because our total promotional expenditures (including amounts classified as a reduction of revenues) are significant, if our estimates are inaccurate we would have to make adjustments in subsequent periods that could have a material effect on our results of operations.

Valuation of Long-Lived Assets

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

Intangible Assets

Goodwill is not subject to amortization and is tested for impairment annually and whenever events or changes in circumstances indicate that impairment may have occurred. Impairment testing is performed for each of our reporting units. We compare the carrying value of a reporting unit, including goodwill, to the fair value of the unit. Carrying value is based on the assets and liabilities associated with the operations of that reporting unit, which often requires allocation of shared or corporate items among reporting units. If the carrying amount of a reporting unit exceeds its fair value, we revalue all assets and liabilities of the reporting unit, excluding goodwill, to determine if the fair value of the net assets is greater than the net assets including goodwill. If the fair value of the net assets is less than the net assets including goodwill, impairment has occurred. Our estimates of fair value are determined based on a discounted cash flow model. Growth rates for sales and profits are determined using inputs from our annual long-range planning process. We also make estimates of discount rates, perpetuity growth assumptions, market comparables, and other factors.

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

Our indefinite-lived intangible assets, mainly brands, are also tested for impairment annually and whenever events or changes in circumstances indicate that their carrying value may not be recoverable. We performed our fiscal 2009 assessment of our brand intangibles as of December 1, 2008. Our estimate of the fair value of the brands was based on a discounted cash flow model using inputs which included: projected revenues from our annual long-range plan; assumed royalty rates that could be payable if we did not own the brands; and a discount rate. As of our assessment date, there was no impairment of these intangibles, and the fair value of the *Pillsbury* brand was more than 10 percent greater than its carrying value, up from an excess of 3 percent as of the fiscal 2008 assessment.

As of May 31, 2009, we had \$10.4 billion of goodwill and indefinite-lived intangible assets. While we currently believe that the fair value of each intangible exceeds its carrying value and that those intangibles so classified will contribute indefinitely to our cash flows, materially different assumptions regarding future performance of our businesses or a different weighted-average cost of capital could result in significant impairment losses and amortization expense.

Table of Contents**Stock-based Compensation**

The valuation of stock options is a significant accounting estimate which requires us to use judgments and assumptions that are likely to have a material impact on our financial statements. Annually, we make predictive assumptions regarding future stock price volatility, employee exercise behavior, 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. For the fiscal 2009 grants, we have excluded historical volatility for fiscal 2002 and prior, primarily because volatility driven by our acquisition of The Pillsbury Company (Pillsbury) in fiscal 2002 does not reflect what we believe to be expected future 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. If all other assumptions are held constant, a one percentage point increase in our fiscal 2009 volatility assumption would increase the grant-date fair value of our fiscal 2009 option awards by 5 percent.

Our expected term represents the period of time that options granted are expected to be outstanding based on historical data to estimate option exercise and employee termination within the valuation model. Separate groups of employees have similar historical exercise behavior and therefore were aggregated into a single pool for valuation purposes. The weighted-average expected term for all employee groups is presented in the table below. An increase in the expected term by 1 year, leaving all other assumptions constant, would change the grant date fair value by less than 1 percent. Our valuation model assumes that dividends and our share price increase in line with earnings, resulting in a constant dividend yield. The risk-free interest rate for periods during the expected term of the options is based on the U.S. Treasury zero-coupon yield curve in effect at the time of grant.

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

| | Fiscal Year | | |
|--|--------------------|-------------|-------------|
| | 2009 | 2008 | 2007 |
| Estimated fair values of stock options granted | \$ 9.41 | \$ 10.55 | \$ 10.74 |
| Assumptions: | | | |
| Risk-free interest rate | 4.4% | 5.1% | 5.3% |
| Expected term | 8.5 years | 8.5 years | 8.0 years |
| Expected volatility | 16.1% | 15.6% | 19.7% |
| Dividend yield | 2.7% | 2.7% | 2.8% |

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

Any corporate income tax benefit realized upon exercise or vesting of an award in excess of that previously recognized in earnings (referred to as a windfall tax benefit) is presented in the Consolidated Statements of Cash Flows as a financing cash flow. The actual impact on future years' financing cash flow will depend, in part, on the volume of employee stock option exercises during a particular year and the relationship between the exercise-date market value of the underlying stock and the original grant-date fair value previously determined for financial reporting purposes.

Realized windfall tax benefits are credited to additional paid-in capital within the Consolidated Balance Sheet.

Realized shortfall tax benefits (amounts which are less than that previously recognized in earnings) are first offset

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against the cumulative balance of windfall tax benefits, if any, and then charged directly to income tax expense, potentially resulting in volatility in our consolidated effective income tax rate. We calculated a cumulative amount of windfall tax benefits from post-1995 fiscal years for the purpose of accounting for future shortfall tax benefits and currently have sufficient cumulative windfall tax benefits to absorb projected arising shortfalls, such that we do not currently expect future earnings to be affected by this provision. However, as employee stock option exercise behavior is not within our control, it is possible that materially different reported results could occur if different assumptions or conditions were to prevail.

Income Taxes

We apply a more-likely-than-not threshold to the recognition and derecognition of uncertain tax positions.

Accordingly we recognize the amount of tax benefit that has a greater than 50 percent likelihood of being ultimately realized upon settlement. Future changes in judgment related to the expected ultimate resolution of uncertain tax positions will affect earnings in the quarter of such change. Prior to fiscal 2008, our policy was to establish liabilities that reflected the probable outcome of known tax contingencies. The effects of final resolution, if any, were recognized as changes to the effective income tax rate in the period of resolution.

Annually we file more than 350 income tax returns in approximately 100 global taxing jurisdictions. A number of years may elapse before an uncertain tax position is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our liabilities for income taxes reflect the most likely outcome. We adjust these liabilities, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular position would usually require the use of cash.

The number of years with open tax audits varies depending on the tax jurisdiction. Our major taxing jurisdictions include the United States (federal and state) and Canada. We are no longer subject to United States federal examinations by the IRS for fiscal years before 2002.

The IRS has concluded its field examination of our 2006 and prior federal tax years, which resulted in payments of \$18 million in fiscal 2009 and \$56 million in fiscal 2008 to cover the additional U.S. income tax liability plus interest related to adjustments during these audit cycles. The IRS also proposed additional adjustments for the fiscal 2002 to 2006 audit cycles related to the amount of capital loss and depreciation and amortization we reported as a result of our sale of minority interests in our GMC subsidiary. The IRS has proposed adjustments that effectively eliminate most of the tax benefits associated with this transaction. We believe we have meritorious defenses and are vigorously defending our positions. We have appealed the results of the IRS field examinations to the IRS Appeals Division. Our potential liability for this matter is significant. We have determined that a portion of this matter should be included as a tax liability and is accordingly included in our total liabilities for uncertain tax positions as disclosed in Note 14 to our Consolidated Financial Statements included in Item 8 of this report. The IRS initiated its audit of our fiscal 2007 and 2008 tax years during fiscal 2009.

In the third quarter of fiscal 2008, we recorded an income tax benefit of \$31 million as a result of a favorable U.S. district court decision on an uncertain tax matter. In the third quarter of 2009, the U.S. Court of Appeals for the Eighth Circuit issued an opinion reversing the district court decision. As a result, we recorded \$53 million (including interest) of income tax expense related to the reversal of cumulative income tax benefits from this uncertain tax matter recognized in fiscal years 1992 through 2008. We are currently evaluating our options for appeal. If the appellate court decision is not overturned, we would expect to make cash tax and interest payments of approximately \$32 million in connection with this matter.

As of May 31, 2009, our total liability for uncertain tax positions and the associated accrued interest and penalties was \$720 million as of the end of our fiscal year. We expect to pay approximately \$157 million of tax liabilities and accrued interest in the next 12 months, including a portion of our potential liability for the matter resolved by the U.S. Court of Appeals discussed in the preceding paragraph. While fiscal years 2007 and 2008 are currently under examination by the IRS, we are not able to reasonably estimate the timing of future cash flows beyond 12 months due to uncertainties in the timing of this and other tax audit outcomes.

Various tax examinations by United States state taxing authorities could be conducted for any open tax year, which vary by jurisdiction, but are generally from 3 to 5 years. Currently, several state examinations are in progress. The Canada Revenue Agency is conducting an audit of our income tax returns in Canada for fiscal years 2003 (which is

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our earliest tax year still open for examination) through 2005. We do not anticipate that any United States state tax or Canadian tax adjustments will have a significant impact on our financial position or results of operations.

Defined Benefit Plans**Defined Benefit Pension Plans**

We have defined benefit pension plans covering most domestic, Canadian, and United Kingdom employees. Benefits for salaried employees are based on length of service and final average compensation. Benefits for hourly employees include various monthly amounts for each year of credited service. Our funding policy is consistent with the requirements of applicable laws. We made \$200 million of voluntary contributions to our principal domestic plans in fiscal 2009, and are not required to make similar contributions in fiscal 2010. Our principal domestic retirement plan covering salaried employees has a provision that any excess pension assets would vest if the plan is terminated within five years of a change in control.

Other Postretirement Benefit Plans

We also sponsor plans that provide health care benefits to the majority of our domestic and Canadian retirees. The salaried health care benefit plan is contributory, with retiree contributions based on years of service. We fund related trusts for certain employees and retirees on an annual basis. We did not make voluntary contributions to these plans in fiscal 2009.

Postemployment Benefit Plans

Under certain circumstances, we also provide accruable benefits to former or inactive employees in the United States, Canada, and Mexico, and members of our Board of Directors, including severance and certain other benefits payable upon death. We recognize an obligation for any of these benefits that vest or accumulate with service.

Postemployment benefits that do not vest or accumulate with service (such as severance based solely on annual pay rather than years of service) are charged to expense when incurred. Our postemployment benefit plans are unfunded. We recognize benefits provided during retirement or following employment over the plan participants' active working life. Accordingly, we make various assumptions to predict and measure costs and obligations many years prior to the settlement of our obligations. Assumptions that require significant management judgment and have a material impact on the measurement of our net periodic benefit expense or income and accumulated benefit obligations include the long-term rates of return on plan assets, the interest rates used to discount the obligations for our benefit plans, and the health care cost trend rates.

Expected Rate of Return on Plan Assets

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

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

Our historical investment returns (compound annual growth rates) for our United States defined benefit pension and other postretirement plan assets were a 25 percent loss in the 1 year period ended May 31, 2009 and returns of 5 percent, 6 percent, 9 percent, and 9 percent for the 5, 10, 15, and 20 year periods ended May 31, 2009.

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Our principal defined benefit pension and other postretirement plans in the United States have an expected return on plan assets of 9.6 percent. During fiscal 2007, we lowered the expected rate of return on one of our other postretirement plans in the United States based on costs associated with insurance contracts owned by that plan. On a weighted-average basis, the expected rate of return for all defined benefit plans was 9.55 percent for fiscal 2009, 9.56 percent for fiscal 2008, and 9.57 percent for fiscal 2007.

Lowering the expected long-term rate of return on assets by 50 basis points would increase our net pension and postretirement expense by \$22 million for fiscal 2010. A market-related valuation basis is used to reduce year-to-year expense volatility. The market-related valuation recognizes certain investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the market-related value of assets. Our outside actuaries perform these calculations as part of our determination of annual expense or income.

Discount Rates

Our discount rate assumptions are determined annually as of the last day of our fiscal year for all of our defined benefit pension, other postretirement, and postemployment benefit plan obligations. Those same discount rates also are used to determine defined benefit pension, other postretirement, and postemployment benefit plan income and expense for the following fiscal year. We work with our actuaries to determine the timing and amount of expected future cash outflows to plan participants and, using the top quartile of AA-rated corporate bond yields, to develop a forward interest rate curve, including a margin to that index based on our credit risk. This forward interest rate curve is applied to our expected future cash outflows to determine our discount rate assumptions.

Our weighted-average discount rates were as follows:

Weighted-Average Discount Rates

| | Defined Benefit Pension Plans | Other Postretirement Benefit Plans | Postemployment Benefit Plans |
|--|--|---|---|
| Obligation as of May 31, 2009, and fiscal 2010 expense | 7.49% | 7.45% | 7.06% |
| Obligation as of May 25, 2008, and fiscal 2009 expense | 6.88% | 6.90% | 6.64% |
| Fiscal 2008 expense | 6.18% | 6.15% | 6.05% |

Lowering the discount rates by 50 basis points would increase our net defined benefit pension, other postretirement, and postemployment benefit plan expense for fiscal 2010 by approximately \$25 million. All obligation-related experience gains and losses are amortized using a straight-line method over the average remaining service period of active plan participants.

Health Care Cost Trend Rates

We review our health care trend rates annually. Our review is based on data we collect about our health care claims experience and information provided by our actuaries. This information includes recent plan experience, plan design, overall industry experience and projections, and assumptions used by other similar organizations. Our initial health care cost trend rate is adjusted as necessary to remain consistent with this review, recent experiences, and short-term expectations. Our initial health care cost trend rate assumption is 9.5 percent for retirees age 65 and over and 9.0 percent for retirees under age 65. These rates are graded down annually until the ultimate trend rate of 5.2 percent is reached in 2018 for all retirees. The trend rates are applicable for calculations only if the retirees' benefits increase as a result of health care inflation. The ultimate trend rate is adjusted annually, as necessary, to approximate the current economic view on the rate of long-term inflation plus an appropriate health care cost premium. Assumed trend rates for health care costs have an important effect on the amounts reported for the other postretirement benefit plans.

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

| In Millions | One Percentage Point Increase | One Percentage Point Decrease |
|--|--|--|
| Effect on the aggregate of the service and interest cost components in fiscal 2010 | \$ 7.2 | \$ (6.3) |
| Effect on the other postretirement accumulated benefit obligation as of May 31, 2009 | 75.8 | (66.9) |

Any arising health care claims cost-related experience gain or loss is recognized in the calculation of expected future claims. Once recognized, experience gains and losses are amortized using a straight-line method over 15 years, resulting in at least the minimum amortization required being recorded.

Financial Statement Impact

In fiscal 2009, we recorded net defined benefit pension, other postretirement, and postemployment benefit plan income of \$4 million compared to \$19 million of expense in fiscal 2008 and \$36 million of expense in fiscal 2007. As of May 31, 2009, we had cumulative unrecognized actuarial net losses of \$1.0 billion on our defined benefit pension plans and \$130 million on our postretirement benefit plans, mainly as the result of declines in the values of plan assets. These unrecognized actuarial net losses will result in decreases in our future pension income and increases in postretirement expense since they currently exceed the corridors defined by GAAP.

We use the Retirement Plans (RP) 2000 Mortality Table projected forward to our plans measurement dates for calculating the year-end defined benefit pension, other postretirement, and postemployment benefit obligations and annual expense.

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In November 2008, the Financial Accounting Standards Board (FASB) issued Emerging Issues Task Force (EITF) No. 08-6, *Equity Method Accounting Considerations* (EITF 08-6). EITF 08-6 addresses the impact of the issuance of SFAS 141R and SFAS 160 on accounting for equity method investments. EITF 08-6 is effective for fiscal years beginning on or after December 15, 2008, which for us is the first quarter of fiscal 2010. We do not expect EITF 08-6 to have a material impact on our results of operations or financial condition.

In June 2008, the FASB approved the issuance of EITF No. 07-5, *Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock* (EITF 07-5). EITF 07-5 defines when adjustment features within contracts are considered to be equity-indexed and will be effective for us in the first quarter of fiscal 2010. We do not expect EITF 07-5 to have any impact on our results of operations or financial condition.

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 provides that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008, which for us is the first quarter of fiscal 2010. Upon adoption, we are required to retrospectively adjust our EPS data (including any amounts related to interim periods, summaries of earnings, and selected financial data) to conform with the provisions of FSP EITF 03-6-1. We expect the adoption of FSP EITF 03-6-1 to have an immaterial impact on our basic and diluted EPS.

In May 2008, the FASB issued FSP Financial Accounting Standard (FAS) Accounting Principles Board (APB) 14-1, *Accounting for Convertible Debt Instruments that may be Settled in Cash upon Conversion (Including Partial*

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Cash Settlement) (FSP APB 14-1). FSP APB 14-1 requires issuers to account separately for the liability and equity components of convertible debt instruments that may be settled in cash or other assets. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008, which for us is the first quarter of fiscal 2010. Upon adoption, we are required to apply this accounting retrospectively. We expect the adoption of FSP APB 14-1 to have no impact on our financial statements for fiscal 2009 and 2008, and an immaterial impact on our financial statements for fiscal 2007. In April 2008, the FASB finalized FSP No. 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). This position amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. FSP 142-3 applies to intangible assets that are acquired individually or with a group of other assets and both intangible assets acquired in business combinations and asset acquisitions. This position is effective for fiscal years beginning after December 15, 2008, which for us is the first quarter of fiscal 2010. We do not expect FSP 142-3 to have any impact on our results of operations or financial condition.

In February 2008, the FASB amended SFAS 157 by FSP FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2). FSP FAS 157-2 defers the effective date of SFAS 157 for all nonfinancial assets and liabilities that are not remeasured at fair value on a recurring basis to fiscal years beginning after February 15, 2008. As disclosed in Note 6 to the Consolidated Financial Statements in Item 8 of this report, we adopted the required provisions of SFAS 157 effective in the first quarter of fiscal 2009. We expect to adopt the remaining provisions of SFAS 157 beginning in the first quarter of fiscal 2010. Although we believe the adoption may impact the way that we determine the fair value of goodwill, indefinite-lived intangible assets, and other long-lived assets, we do not expect it to have a material impact on our results of operations or financial condition.

In December 2007, the FASB approved the issuance of SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). SFAS 141R establishes principles and requirements for how the acquirer in a business combination: recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R applies to business combinations for which the acquisition date is on or after December 15, 2008. SFAS 141R also changes the accounting for acquisition-related tax contingencies, requiring all such changes in these contingency liabilities to be recorded in earnings after the effective date. As discussed in Note 14 to the Consolidated Financial Statements in Item 8 of this report, we have significant liabilities for uncertain tax positions. Adjustments to the portion of these liabilities related to our acquisition of Pillsbury after the adoption of SFAS 141R could be material to net earnings.

In December 2007, the FASB approved the issuance of SFAS 160. SFAS 160 establishes accounting and reporting standards that require: the ownership interest in subsidiaries held by parties other than the parent be clearly identified and presented in the Consolidated Balance Sheets within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and the non-controlling interest be clearly identified and presented on the face of the Consolidated Statement of Earnings; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. SFAS 160 is effective for us in the first quarter of fiscal 2010. At that time we expect to reclassify the minority interests in our GMC subsidiary to stockholders' equity in our Consolidated Balance Sheets. We also expect to reclassify retrospectively our distributions on those minority interests from interest expense to distributions to noncontrolling interests in our Consolidated Statements of Earnings. We have several other immaterial noncontrolling interests that will be reclassified in a similar manner.

NON-GAAP MEASURES

We have included in this report measures of financial performance that are not defined by GAAP. For each of these non-GAAP financial measures, we are providing below a reconciliation of the differences between the non-GAAP measure and the most directly comparable GAAP measure, an explanation of why our management or the Board of Directors believes the non-GAAP measure provides useful information to investors, and any additional purposes for which our management or Board of Directors uses the non-GAAP measure. These non-GAAP measures should be viewed in addition to, and not in lieu of, the comparable GAAP measure.

Table of Contents**Total Segment Operating Profit**

This non-GAAP measure is used in reporting to our executive management and as a component of the Board of Directors' measurement of our performance for incentive compensation purposes. Management and the Board of Directors believe that this measure provides useful information to investors because it is the profitability measure we use to evaluate segment performance. A reconciliation of this measure to operating profit, the relevant GAAP measure, is included in Note 16 to the Consolidated Financial Statements in Item 8 of this report.

Return on Average Total Capital

This ratio is not defined by GAAP, and is used in internal management reporting and as a component of the Board of Directors' rating of our performance for incentive compensation purposes. Management and the Board of Directors believe that this measure provides useful information to investors because it is important for assessing the utilization of capital and it eliminates the effects of infrequently occurring events, thereby improving year-to-year comparability.

| In Millions | Fiscal Year | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Net earnings | \$ 1,304.4 | \$ 1,294.7 | \$ 1,143.9 | \$ 1,090.3 | \$ 1,240.0 | |
| Interest, net, after-tax | 244.7 | 276.4 | 280.1 | 261.7 | 288.3 | |
| Earnings before interest, after-tax | 1,549.1 | 1,571.1 | 1,424.0 | 1,352.0 | 1,528.3 | |
| Mark-to-market effects | 74.9 | (35.9) | | | | |
| Divestitures gain, net | (38.0) | | | | (284.0) | |
| Gain from insurance settlement | (26.9) | | | | | |
| Uncertain tax item | 52.6 | (30.7) | | | | |
| Debt repurchase cost | | | | | 86.9 | |
| Earnings before interest, after-tax for return on capital calculation | \$ 1,611.7 | \$ 1,504.5 | \$ 1,424.0 | \$ 1,352.0 | \$ 1,331.2 | |
| Current portion of long-term debt | \$ 508.5 | \$ 442.0 | \$ 1,734.0 | \$ 2,131.5 | \$ 1,638.7 | \$ 233.5 |
| Notes payable | 812.2 | 2,208.8 | 1,254.4 | 1,503.2 | 299.2 | 582.6 |
| Long-term debt | 5,754.8 | 4,348.7 | 3,217.7 | 2,414.7 | 4,255.2 | 7,409.9 |
| Total debt | 7,075.5 | 6,999.5 | 6,206.1 | 6,049.4 | 6,193.1 | 8,226.0 |
| Minority interests | 242.3 | 242.3 | 1,138.8 | 1,136.2 | 1,133.2 | 299.0 |
| Stockholders' equity | 5,174.7 | 6,215.8 | 5,319.1 | 5,772.3 | 5,676.4 | 5,247.6 |
| Total capital | 12,492.5 | 13,457.6 | 12,664.0 | 12,957.9 | 13,002.7 | 13,772.6 |
| Accumulated other comprehensive (income) loss | 875.4 | (176.7) | 119.7 | (125.4) | (8.1) | 144.2 |
| After-tax earnings adjustments (a) | (201.1) | (263.7) | (197.1) | (197.1) | (197.1) | |
| Adjusted total capital | \$ 13,166.8 | \$ 13,017.2 | \$ 12,586.6 | \$ 12,635.4 | \$ 12,797.5 | \$ 13,916.8 |
| Adjusted average total capital | \$ 13,092.0 | \$ 12,801.9 | \$ 12,611.0 | \$ 12,716.5 | \$ 13,357.2 | |
| Return on average total capital | 12.3% | 11.8% | 11.3% | 10.6% | 10.0% | |

(a) Sum of current year and

previous years
after-tax
adjustments.

**CAUTIONARY STATEMENT RELEVANT TO FORWARD-LOOKING INFORMATION FOR THE
PURPOSE OF SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM
ACT OF 1995**

This report contains or incorporates by reference forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on our current expectations and assumptions. We also may make written or oral forward-looking statements, including statements contained in our filings with the SEC and in our reports to stockholders.

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

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

Our future results could be affected by a variety of factors, such as: competitive dynamics in the consumer foods industry and the markets for our products, including new product introductions, advertising activities, pricing actions, and promotional activities of our competitors; economic conditions, including changes in inflation rates, interest rates, tax rates, or the availability of capital; product development and innovation; consumer acceptance of new products and product improvements; consumer reaction to pricing actions and changes in promotion levels; acquisitions or dispositions of businesses or assets; changes in capital structure; changes in laws and regulations, including labeling and advertising regulations; impairments in the carrying value of goodwill, other intangible assets, or other long-lived assets, or changes in the useful lives of other intangible assets; changes in accounting standards and the impact of significant accounting estimates; product quality and safety issues, including recalls and product liability; changes in consumer demand for our products; effectiveness of advertising, marketing, and promotional programs; changes in consumer behavior, trends, and preferences, including weight loss trends; consumer perception of health-related issues, including obesity; consolidation in the retail environment; changes in purchasing and inventory levels of significant customers; fluctuations in the cost and availability of supply chain resources, including raw materials, packaging, and energy; disruptions or inefficiencies in the supply chain; volatility in the market value of derivatives used to manage price risk for certain commodities; benefit plan expenses due to changes in plan asset values and discount rates used to determine plan liabilities; failure of our information technology systems; resolution of uncertain income tax matters; foreign economic conditions, including currency rate fluctuations; and political unrest in foreign markets and economic uncertainty due to terrorism or war.

You should also consider the risk factors that we identify in Item 1A of this report, which could also affect our future results.

We undertake no obligation to publicly revise any forward-looking statements to reflect events or circumstances after the date of those statements or to reflect the occurrence of anticipated or unanticipated events.

ITEM 7A Quantitative and Qualitative Disclosures About Market Risk

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

INTEREST RATE RISK

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

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As of May 31, 2009, we had \$4.1 billion of aggregate notional principal amount outstanding, with a net notional amount of \$446 million that converts floating-rate notes to fixed rates. This includes notional amounts of offsetting swaps that neutralize our exposure to interest rates on other interest rate swaps.

FOREIGN EXCHANGE RISK

Foreign currency fluctuations affect our net investments in foreign subsidiaries and foreign currency cash flows related to foreign-denominated commercial paper, third party purchases, intercompany loans, and product shipments. We are also exposed to the translation of foreign currency earnings to the U.S. dollar. Our principal exposures are to the Australian dollar, British pound sterling, Canadian dollar, Chinese renminbi, euro, Japanese yen, and Mexican peso. We mainly use foreign currency forward contracts to selectively hedge our foreign currency cash flow exposures. We also generally swap our foreign-dominated commercial paper borrowings back to U.S. dollars; the gains or losses on these derivatives offset the foreign currency revaluation gains or losses recorded in earnings on the associated borrowings. We generally do not hedge more than 12 months forward.

We also have many net investments in foreign subsidiaries that are denominated in euros. We previously hedged a portion of these net investments by issuing euro-denominated commercial paper and foreign exchange forward contracts. As of May 31, 2009, we had deferred net foreign currency transaction losses of \$96 million in accumulated other comprehensive income (loss) associated with this hedging activity.

COMMODITY PRICE RISK

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

As of May 31, 2009, the net notional value of commodity derivatives was \$191 million, of which \$68 million relates to agricultural positions and \$123 million relates to energy positions. These derivatives relate to inputs that generally will be utilized within the next 12 months.

EQUITY INSTRUMENTS

Equity price movements affect our compensation expense as certain investments owned by our employees related to our deferred compensation plan are revalued. We use equity swaps to manage this market risk.

VALUE AT RISK

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

The VAR calculation used historical interest rates, foreign exchange rates, and commodity and equity prices from the past year to estimate the potential volatility and correlation of these rates in the future. The market data were drawn from the RiskMetricstm data set. The calculations are not intended to represent actual losses in fair value that we expect to incur. Further, since the hedging instrument (the derivative) inversely correlates with the underlying exposure, we would expect that any loss or gain in the fair value of our derivatives would be generally offset by an increase or decrease in the fair value of the underlying exposure. The positions included in the calculations were: debt; investments; interest rate swaps; foreign exchange forwards; commodity swaps, futures and options; and

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equity instruments. The calculations do not include the underlying foreign exchange and commodities-related positions that are offset by these market-risk-sensitive instruments.

The table below presents the estimated maximum potential VAR arising from a one-day loss in fair value for our interest rate, foreign currency, commodity, and equity market-risk-sensitive instruments outstanding as of May 31, 2009, and May 25, 2008, and the average fair value impact during the year ended May 31, 2009.

| In Millions | Fair Value Impact Average | | |
|------------------------------|------------------------------|--------------------------|--------------------|
| | May 31, 2009 | during fiscal 2009 | May 25, 2008 |
| Interest rate instruments | \$ 44.4 | \$ 36.0 | \$ 18.9 |
| Foreign currency instruments | 5.8 | 5.1 | 5.0 |
| Commodity instruments | 10.4 | 8.2 | 6.3 |
| Equity instruments | 1.8 | 1.3 | 1.2 |

ITEM 8 Financial Statements and Supplementary Data
REPORT OF MANAGEMENT RESPONSIBILITIES

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

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

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

The Audit Committee reviewed and approved the Company's annual financial statements. The Audit Committee recommended, and the Board of Directors approved, that the consolidated financial statements be included in the Annual Report. The Audit Committee also appointed KPMG LLP to serve as the Company's independent registered public accounting firm for fiscal 2010, subject to ratification by the stockholders at the annual meeting.

/s/ K. J. Powell

/s/ D. L. Mulligan

K. J. Powell
 Chairman of the Board
 and Chief Executive Officer

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

July 13, 2009

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

General Mills, Inc.:

We have audited the accompanying consolidated balance sheets of General Mills, Inc. and subsidiaries as of May 31, 2009 and May 25, 2008, and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended May 31, 2009. In connection with our audits of the consolidated financial statements, we also have audited the accompanying financial statement schedule. We also have audited General Mills, Inc.'s internal control over financial reporting as of May 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). General Mills, Inc.'s management is responsible for these consolidated financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of General Mills, Inc. and subsidiaries as of May 31, 2009 and May 25, 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended May 31, 2009, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the accompanying financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also in our opinion, General Mills, Inc. maintained, in all material respects, effective internal control over financial reporting as of May 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In fiscal 2008, as disclosed in Note 14 to the consolidated financial statements, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 on May 28, 2007.

/s/ KPMG LLP

Minneapolis, Minnesota

July 13, 2009

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Consolidated Statements of Earnings
GENERAL MILLS, INC. AND SUBSIDIARIES
(In Millions, Except per Share Data)

| | 2009 | Fiscal Year 2008 | 2007 |
|---|-------------|-----------------------------|-------------|
| Net sales | \$ 14,691.3 | \$ 13,652.1 | \$ 12,441.5 |
| Cost of sales | 9,457.8 | 8,778.3 | 7,955.1 |
| Selling, general, and administrative expenses | 2,953.9 | 2,625.0 | 2,389.3 |
| Divestitures (gain), net | (84.9) | | |
| Restructuring, impairment, and other exit costs | 41.6 | 21.0 | 39.3 |
| Operating profit | 2,322.9 | 2,227.8 | 2,057.8 |
| Interest, net | 390.0 | 421.7 | 426.5 |
| Earnings before income taxes and after-tax earnings from joint ventures | 1,932.9 | 1,806.1 | 1,631.3 |
| Income taxes | 720.4 | 622.2 | 560.1 |
| After-tax earnings from joint ventures | 91.9 | 110.8 | 72.7 |
| Net earnings | \$ 1,304.4 | \$ 1,294.7 | \$ 1,143.9 |
| Earnings per share - basic | \$ 3.93 | \$ 3.86 | \$ 3.30 |
| Earnings per share - diluted | \$ 3.80 | \$ 3.71 | \$ 3.18 |
| Dividends per share | \$ 1.72 | \$ 1.57 | \$ 1.44 |

See accompanying notes to consolidated financial statements.

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Consolidated Balance Sheets
GENERAL MILLS, INC. AND SUBSIDIARIES
(In Millions, Except Par Value)

| | May 31, 2009 | May 25, 2008 |
|---|-------------------------|-------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 749.8 | \$ 661.0 |
| Receivables | 953.4 | 1,081.6 |
| Inventories | 1,346.8 | 1,366.8 |
| Deferred income taxes | 15.6 | |
| Prepaid expenses and other current assets | 469.3 | 510.6 |
| | | |
| Total current assets | 3,534.9 | 3,620.0 |
| | | |
| Land, buildings, and equipment | 3,034.9 | 3,108.1 |
| Goodwill | 6,663.0 | 6,786.1 |
| Other intangible assets | 3,747.0 | 3,777.2 |
| Other assets | 895.0 | 1,750.2 |
| | | |
| Total assets | \$ 17,874.8 | \$ 19,041.6 |
| | | |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 803.4 | \$ 937.3 |
| Current portion of long-term debt | 508.5 | 442.0 |
| Notes payable | 812.2 | 2,208.8 |
| Deferred income taxes | | 28.4 |
| Other current liabilities | 1,481.9 | 1,239.8 |
| | | |
| Total current liabilities | 3,606.0 | 4,856.3 |
| | | |
| Long-term debt | 5,754.8 | 4,348.7 |
| Deferred income taxes | 1,165.3 | 1,454.6 |
| Other liabilities | 1,931.7 | 1,923.9 |
| | | |
| Total liabilities | 12,457.8 | 12,583.5 |
| | | |
| Minority interests | 242.3 | 242.3 |
| | | |
| Stockholders' equity: | | |

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| | | |
|--|-------------|-------------|
| Common stock, 377.3 shares issued, \$0.10 par value | 37.7 | 37.7 |
| Additional paid-in capital | 1,249.9 | 1,149.1 |
| Retained earnings | 7,235.6 | 6,510.7 |
| Common stock in treasury, at cost, shares of 49.3 and 39.8 | (2,473.1) | (1,658.4) |
| Accumulated other comprehensive income (loss) | (875.4) | 176.7 |
| | | |
| Total stockholders' equity | 5,174.7 | 6,215.8 |
| | | |
| Total liabilities and equity | \$ 17,874.8 | \$ 19,041.6 |

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Stockholders Equity and Comprehensive Income
GENERAL MILLS, INC. AND SUBSIDIARIES
(In Millions, Except per Share Data)

| | Issued | | Treasury | | Retained Earnings | Unearned Compensation | Accumulated Other Comprehensive Income (Loss) | Total | |
|--|---------------|-----------------------------------|-----------------|---------------|--------------------------|------------------------------|--|--------------|------------|
| | Par | Additional Paid-In Capital | Shares | Amount | | | | | |
| Balance as of May 28, 2006 | 502.3 | \$ 50.2 | \$ 5,736.6 | (145.9) | \$(5,163.0) | \$ 5,106.6 | \$(83.5) | \$ 125.4 | \$ 5,772.3 |
| Comprehensive income: | | | | | | | | | |
| Net earnings | | | | | 1,143.9 | | | | 1,143.9 |
| Other comprehensive income | | | | | | | | 195.3 | 195.3 |
| Total comprehensive income | | | | | | | | | 1,339.2 |
| Change in accounting principle for stock compensation | | | (83.5) | | | | 83.5 | | |
| Change in accounting principle for defined benefit pension, other postretirement, and postemployment benefit plans | | | | | | | | (440.4) | (440.4) |
| Cash dividends declared (\$1.44 per share) | | | | | (505.2) | | | | (505.2) |
| Stock compensation plans (includes income tax benefits of \$73.1) | | | 164.6 | 9.2 | 339.4 | | | | 504.0 |
| Shares purchased | | | | (25.3) | (1,385.1) | | | | (1,385.1) |
| Unearned compensation related to restricted stock awards | | | (95.0) | | | | | | (95.0) |

| | | | | | | | |
|---|---------|--------|-----------|---------|-----------|---------|-----------------|
| Issuance of shares to settle conversion of zero coupon debentures, net of tax | | | (10.7) | 0.3 | 10.7 | | |
| Earned compensation and other | | | 129.3 | | | | 129.3 |
| Balance as of May 27, 2007 | 502.3 | 50.2 | 5,841.3 | (161.7) | (6,198.0) | 5,745.3 | (119.7) 5,319.1 |
| Comprehensive income: | | | | | | | |
| Net earnings | | | | | | 1,294.7 | 1,294.7 |
| Other comprehensive income | | | | | | | 296.4 296.4 |
| Total comprehensive income | | | | | | | 1,591.1 |
| Cash dividends declared (\$1.57 per share) | | | | | | (529.7) | (529.7) |
| Stock compensation plans (includes income tax benefits of \$55.7) | | | 121.0 | 6.5 | 261.6 | | 382.6 |
| Shares purchased | | | | (23.9) | (1,384.6) | | (1,384.6) |
| Retirement of treasury shares | (125.0) | (12.5) | (5,068.3) | 125.0 | 5,080.8 | | |
| Shares issued under forward purchase contract | | | 168.2 | 14.3 | 581.8 | | 750.0 |
| Unearned compensation related to restricted stock awards | | | (104.1) | | | | (104.1) |
| Adoption of FIN 48 | | | 57.8 | | | 8.4 | 66.2 |
| Capital appreciation paid to holders of Series B-1 limited membership interests in General Mills Cereals, LLC (GMC) | | | | | | (8.0) | (8.0) |
| Earned compensation | | | 133.2 | | | | 133.2 |

| | | | | | | | | | |
|---|-------|---------|------------|--------|-------------|------------|----|------------|------------|
| Balance as of May 25, 2008 | 377.3 | 37.7 | 1,149.1 | (39.8) | (1,658.4) | 6,510.7 | | 176.7 | 6,215.8 |
| Comprehensive income: | | | | | | | | | |
| Net earnings | | | | | | 1,304.4 | | | 1,304.4 |
| Other comprehensive loss | | | | | | | | (1,052.1) | (1,052.1) |
| Total comprehensive income | | | | | | | | | 252.3 |
| Cash dividends declared (\$1.72 per share) | | | | | | (579.5) | | | (579.5) |
| Stock compensation plans (includes income tax benefits of \$94.0) | | | 23.0 | 9.8 | 443.1 | | | | 466.1 |
| Shares purchased | | | | (20.2) | (1,296.4) | | | | (1,296.4) |
| Shares issued for acquisition | | | 16.4 | 0.9 | 38.6 | | | | 55.0 |
| Unearned compensation related to restricted stock awards | | | (56.2) | | | | | | (56.2) |
| Earned compensation | | | 117.6 | | | | | | 117.6 |
| Balance as of May 31, 2009 | 377.3 | \$ 37.7 | \$ 1,249.9 | (49.3) | \$(2,473.1) | \$ 7,235.6 | \$ | \$(875.4) | \$ 5,174.7 |

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows
GENERAL MILLS, INC. AND SUBSIDIARIES
(In Millions)

| | 2009 | Fiscal Year 2008 | 2007 |
|---|-------------|-----------------------------|-------------|
| Cash Flows - Operating Activities | | | |
| Net earnings | \$ 1,304.4 | \$ 1,294.7 | \$ 1,143.9 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation and amortization | 453.6 | 459.2 | 417.8 |
| After-tax earnings from joint ventures | (91.9) | (110.8) | (72.7) |
| Stock-based compensation | 117.7 | 133.2 | 127.1 |
| Deferred income taxes | 215.8 | 98.1 | 26.0 |
| Tax benefit on exercised options | (89.1) | (55.7) | (73.1) |
| Distributions of earnings from joint ventures | 68.5 | 108.7 | 45.2 |
| Pension and other postretirement benefit plan contributions | (220.3) | (14.2) | (60.6) |
| Pension and other postretirement benefit plan (income) expense | (27.5) | 5.5 | 5.6 |
| Divestitures (gain), net | (84.9) | | |
| Gain on insurance settlement | (41.3) | | |
| Restructuring, impairment, and other exit costs (income) | 31.3 | (1.7) | 39.1 |
| Changes in current assets and liabilities | 176.9 | (126.7) | 149.1 |
| Other, net | 15.0 | (60.4) | 3.8 |
| Net cash provided by operating activities | 1,828.2 | 1,729.9 | 1,751.2 |
| Cash Flows - Investing Activities | | | |
| Purchases of land, buildings, and equipment | (562.6) | (522.0) | (460.2) |
| Acquisitions | | 0.6 | (83.4) |
| Investments in affiliates, net | 5.9 | 64.6 | (100.5) |
| Proceeds from disposal of land, buildings, and equipment | 4.1 | 25.9 | 13.8 |
| Proceeds from divestitures of product lines | 244.7 | | 13.5 |
| Proceeds from insurance settlement | 41.3 | | |
| Other, net | (22.3) | (11.5) | 19.7 |
| Net cash used by investing activities | (288.9) | (442.4) | (597.1) |
| Cash Flows - Financing Activities | | | |
| Change in notes payable | (1,390.5) | 946.6 | (280.4) |
| Issuance of long-term debt | 1,850.0 | 1,450.0 | 2,650.0 |
| Payment of long-term debt | (370.3) | (1,623.4) | (2,323.2) |
| Settlement of Lehman Brothers forward purchase contract | | 750.0 | |
| Repurchase of Series B-1 limited membership interests in GMC | | (843.0) | |
| Repurchase of General Mills Capital, Inc. preferred stock | | (150.0) | |
| Proceeds from sale of Class A limited membership interests in GMC | | 92.3 | |

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| | | | |
|--|-----------|------------|-----------|
| Proceeds from common stock issued on exercised options | 305.2 | 191.4 | 317.4 |
| Tax benefit on exercised options | 89.1 | 55.7 | 73.1 |
| Purchases of common stock for treasury | (1,296.4) | (1,432.4) | (1,320.7) |
| Dividends paid | (579.5) | (529.7) | (505.2) |
| Other, net | (12.1) | (0.5) | (9.1) |
| | | | |
| Net cash used by financing activities | (1,404.5) | (1,093.0) | (1,398.1) |
| | | | |
| Effect of exchange rate changes on cash and cash equivalents | (46.0) | 49.4 | 13.7 |
| | | | |
| Increase (decrease) in cash and cash equivalents | 88.8 | 243.9 | (230.3) |
| Cash and cash equivalents - beginning of year | 661.0 | 417.1 | 647.4 |
| | | | |
| Cash and cash equivalents - end of year | \$ 749.8 | \$ 661.0 | \$ 417.1 |
| | | | |
| Cash Flow from Changes in Current Assets and Liabilities: | | | |
| Receivables | \$ 81.8 | \$ (94.1) | \$ (24.2) |
| Inventories | (28.1) | (165.1) | (116.0) |
| Prepaid expenses and other current assets | 30.2 | (65.9) | (44.9) |
| Accounts payable | (116.4) | 125.1 | 87.8 |
| Other current liabilities | 209.4 | 73.3 | 246.4 |
| | | | |
| Changes in current assets and liabilities | \$ 176.9 | \$ (126.7) | \$ 149.1 |

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements
GENERAL MILLS, INC. AND SUBSIDIARIES

NOTE 1. BASIS OF PRESENTATION AND RECLASSIFICATIONS

Basis of Presentation

Our Consolidated Financial Statements include the accounts of General Mills, Inc. and all subsidiaries in which we have a controlling financial interest. Intercompany transactions and accounts are eliminated in consolidation.

Our fiscal year ends on the last Sunday in May. Fiscal year 2009 consisted of 53 weeks, and fiscal years 2008 and 2007 each consisted of 52 weeks.

Change in Reporting Period

In fiscal 2009, as part of a long-term plan to conform the fiscal year ends of all our operations, we changed the reporting period of most countries in our Latin America region within our International segment from an April fiscal year end to a May fiscal year end to match our fiscal calendar. Accordingly, fiscal 2009 results include 13 months of results from these operations compared to 12 months in fiscal 2008 and fiscal 2007. The impact of this change was not material to our results of operations, thus we did not restate prior period financial statements for comparability. The financial results for our International segment are as of and for the 12 calendar months ended April 30, except for Canada, its export operations, substantially all of its Latin America operations, and its United States and Latin American headquarters.

In fiscal 2007, we changed the reporting period for our Häagen-Dazs joint venture in Japan to include results through March 31. In previous years, we included results for the twelve months ended April 30. Accordingly, fiscal 2007 results include only 11 months of results from this joint venture compared to 12 months in fiscal 2009 and fiscal 2008. The impact of this change was not material to our results of operations, thus we did not restate prior period financial statements for comparability.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

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

Inventories

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

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

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

Land, Buildings, Equipment, and Depreciation

Land is recorded at historical cost. Buildings and equipment, including capitalized interest and internal engineering costs, are recorded at cost and depreciated over estimated useful lives, primarily using the straight-line method.

Ordinary maintenance and repairs are charged to cost of sales. Buildings are usually depreciated over 40 to 50 years, and equipment, furniture, and software are usually depreciated over 3 to 15 years. Fully depreciated assets are retained in buildings and equipment until disposal. When an item is sold or retired, the accounts are relieved of its cost and related accumulated depreciation; the resulting gains and losses, if any, are recognized in earnings. As of May 31, 2009, assets held for sale were insignificant.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable. An impairment loss would be recognized when

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estimated undiscounted future cash flows from the operation and disposition of the asset group are less than the carrying amount of the asset group. Asset groups have identifiable cash flows and are largely independent of other asset groups. Measurement of an impairment loss would be based on the excess of the carrying amount of the asset group over its fair value. Fair value is measured using a discounted cash flow model or independent appraisals, as appropriate.

Goodwill and Other Intangible Assets

Goodwill is not subject to amortization and is tested for impairment annually and whenever events or changes in circumstances indicate that impairment may have occurred. Impairment testing is performed for each of our reporting units. We compare the carrying value of a reporting unit, including goodwill, to the fair value of the unit. Carrying value is based on the assets and liabilities associated with the operations of that reporting unit, which often requires allocation of shared or corporate items among reporting units. If the carrying amount of a reporting unit exceeds its fair value, we revalue all assets and liabilities of the reporting unit, excluding goodwill, to determine if the fair value of the net assets is greater than the net assets including goodwill. If the fair value of the net assets is less than the net assets including goodwill, impairment has occurred. Our estimates of fair value are determined based on a discounted cash flow model. Growth rates for sales and profits are determined using inputs from our annual long-range planning process. We also make estimates of discount rates, perpetuity growth assumptions, market comparables, and other factors.

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

Our indefinite-lived intangible assets, mainly brands, are also tested for impairment annually and whenever events or changes in circumstances indicate that their carrying value may not be recoverable. We performed our fiscal 2009 assessment of our brand intangibles as of December 1, 2008. Our estimate of the fair value of the brands was based on a discounted cash flow model using inputs which included: projected revenues from our annual long-range plan; assumed royalty rates that could be payable if we did not own the brands; and a discount rate. As of our assessment date, there was no impairment of these intangibles, and the fair value of the *Pillsbury* brand was more than 10 percent greater than its carrying value, up from an excess of 3 percent as of the fiscal 2008 assessment.

Investments in Joint Ventures

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

Variable Interest Entities

As of May 31, 2009, we had invested in three variable interest entities (VIEs). We have an interest in a contract manufacturer at our former facility in Geneva, Illinois. We are the primary beneficiary (PB) and have consolidated this entity. This entity had property and equipment with a carrying value of \$25.2 million and long-term debt of \$26.5 million as of May 31, 2009. The liabilities recognized as a result of consolidating this entity do not represent additional claims on our general assets. We also have an interest in a contract manufacturer in Greece that is a VIE. Although we are the PB, we have not consolidated this entity because it is not practical to do so and it is not material to our results of operations, financial condition, or liquidity as of and for the year ended May 31, 2009. This entity had assets of \$5.1 million and liabilities of \$1.1 million as of May 31, 2009. We are not the PB of the remaining VIE. Our maximum exposure to loss from the three VIEs is limited to the \$26.5 million of long-term debt of the contract manufacturer in Geneva, Illinois and our \$2.0 million equity investment in the VIE of which we are not the PB. We

have not provided financial or other support to these VIEs during the current period nor are there arrangements related to these VIEs that could require us to provide financial support in the future.

Table of Contents***Revenue Recognition***

We recognize sales revenue when the shipment is accepted by our customer. Sales include shipping and handling charges billed to the customer and are reported net of consumer coupon redemption, trade promotion and other costs, including estimated allowances for returns, unsalable product, and prompt pay discounts. Sales, use, value-added, and other excise taxes are not recognized in revenue. Coupons are recorded when distributed, based on estimated redemption rates. Trade promotions are recorded based on estimated participation and performance levels for offered programs at the time of sale. We generally do not allow a right of return. However, on a limited case-by-case basis with prior approval, we may allow customers to return product. In limited circumstances, product returned in saleable condition is resold to other customers or outlets. Receivables from customers generally do not bear interest. Terms and collection patterns vary around the world and by channel. The allowance for doubtful accounts represents our estimate of probable non-payments and credit losses in our existing receivables, as determined based on a review of past due balances and other specific account data. Account balances are written off against the allowance when we deem the amount is uncollectible.

Environmental

Environmental costs relating to existing conditions caused by past operations that do not contribute to current or future revenues are expensed. Liabilities for anticipated remediation costs are recorded on an undiscounted basis when they are probable and reasonably estimable, generally no later than the completion of feasibility studies or our commitment to a plan of action.

Advertising Production Costs

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

Research and Development

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

Foreign Currency Translation

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

Derivative Instruments

All derivatives are recognized on the Consolidated Balance Sheets at fair value based on quoted market prices or our estimate of their fair value, and are recorded in either current or noncurrent assets or liabilities based on their maturity. Changes in the fair values of derivatives are recorded in net earnings or other comprehensive income, based on whether the instrument is designated as a hedge transaction and, if so, the type of hedge transaction. Gains or losses on derivative instruments reported in accumulated other comprehensive income (loss) are reclassified to earnings in the period the hedged item affects earnings. If the underlying hedged transaction ceases to exist, any associated amounts reported in accumulated other comprehensive income (loss) are reclassified to earnings at that time. Any ineffectiveness is recognized in earnings in the current period.

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 entered into after the beginning of fiscal 2008. Accordingly, the changes in the values of these derivatives are recorded currently in cost of sales in our Consolidated Statements of Earnings.

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Although we do not meet the criteria for cash flow hedge accounting, we nonetheless believe that these instruments are effective in achieving our objective of providing certainty in the future price of commodities purchased for use in our supply chain. Accordingly, for purposes of measuring segment operating performance these gains and losses are reported in unallocated corporate items outside of segment operating results until such time that the exposure we are managing affects earnings. At that time we reclassify the gain or loss from unallocated corporate items to segment operating profit, allowing our operating segments to realize the economic effects of the derivative without experiencing any resulting mark-to-market volatility, which remains in unallocated corporate items. We no longer have any open commodity derivatives previously accounted for as cash flow hedges.

Stock-based Compensation

We generally recognize compensation expense for grants of restricted stock units using the value of a share of our stock on the date of grant. We estimate the value of stock option grants using the Black Scholes valuation model. Stock compensation is recognized straight line over the vesting period. All our stock compensation expense is recorded in SG&A in the Consolidated Statement of Earnings and in unallocated corporate items in our segment results.

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

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

Defined Benefit Pension, Other Postretirement, and Postemployment Benefit Plans

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

We recognize the underfunded or overfunded status of a defined benefit postretirement plan as an asset or liability and recognize changes in the funded status in the year in which the changes occur through accumulated other comprehensive income (loss), which is a component of stockholders' equity.

Use of Estimates

Preparing our Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates include our accounting for promotional expenditures, valuation of long-lived assets, intangible assets, stock-based compensation, income taxes, and defined benefit pension, post-retirement and post-employment benefits. Actual results could differ from our estimates.

Other New Accounting Standards

In fiscal 2009, we adopted the measurement date provisions Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158). The measurement date provisions of SFAS 158 requires the funded status of a plan to be measured as of the date of the year-end statement of financial position and requires additional disclosures in the notes to consolidated financial statements. SFAS 158 also requires that employers recognize on a prospective basis the funded status of their defined benefit pension and other postretirement plans in their consolidated balance sheets and recognize as a component of other comprehensive income, net of income tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. The adoption of the

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measurement date provisions of SFAS 158 had an immaterial impact on our results of operations and financial condition.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). This statement provides a single definition of fair value, a framework for measuring fair value, and expanded disclosures about fair value measurements. SFAS 157 applies to instruments accounted for under previously issued pronouncements that prescribe fair value as the relevant measure of value. We adopted SFAS 157 at the beginning of fiscal 2009 for all instruments valued on a recurring basis, and our adoption had an immaterial impact on our financial statements. The FASB also deferred the effective date of SFAS 157 until the beginning of fiscal 2010 as it relates to fair value measurement requirements for nonfinancial assets and liabilities that are not remeasured at fair value on a recurring basis. This includes fair value calculated in impairment assessments of goodwill, indefinite-lived intangible assets, and other long-lived assets.

Also in fiscal 2009, we adopted Emerging Issues Task Force (EITF) No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* (EITF 06-11). EITF 06-11 requires that tax benefits from dividends paid on unvested restricted shares be charged directly to stockholders' equity instead of benefiting income tax expense. The adoption of EITF 06-11 increased our fiscal 2009 annual effective income tax rate by 20 basis points.

In fiscal 2007, the FASB ratified the consensus of EITF No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* (EITF 06-3). EITF 06-3 concluded that the presentation of taxes imposed on revenue-producing transactions (sales, use, value added, and excise taxes) on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy that should be disclosed. The adoption of EITF 06-3 did not have any impact on our results of operations or financial condition.

Also in fiscal 2007, we adopted SFAS No. 151, *Inventory Costs – An Amendment of ARB No. 43, Chapter 4* (SFAS 151). SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). The adoption of SFAS 151 did not have any impact on our results of operations or financial condition.

In December 2007, the FASB approved the issuance of SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment to ARB No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards that require: the ownership interest in subsidiaries held by parties other than the parent be clearly identified and presented in the Consolidated Balance Sheets within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and the non-controlling interest be clearly identified and presented on the face of the Consolidated Statement of Earnings; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. SFAS 160 is effective for us in the first quarter of fiscal 2010. At that time we expect to reclassify the minority interests in our GMC subsidiary to stockholders' equity in our Consolidated Balance Sheets. We also expect to reclassify retrospectively our distributions on those minority interests from interest expense to distributions to noncontrolling interests in our Consolidated Statements of Earnings. We have several other immaterial noncontrolling interests that will be reclassified in a similar manner.

NOTE 3. ACQUISITIONS AND DIVESTITURES

During the fourth quarter of fiscal 2009, we sold our bread concentrates product line within our Bakeries and Foodservice segment, including a plant in Cedar Rapids, Iowa, for \$8.3 million in cash. We recorded a pre-tax loss of \$5.6 million on the transaction.

Also during the fourth quarter of fiscal 2009, we sold a portion of the assets of the frozen unbaked bread dough product line within our Bakeries and Foodservice segment, including plants in Bakersfield, California; Hazleton, Pennsylvania; Montreal, Canada; and Vinita, Oklahoma, for \$43.9 million in cash, an \$11.9 million note receivable, and contingent future payments based on the post-sale performance of the product line. Certain assets sold were shared with a frozen dinner roll product line within our U.S. Retail segment, and we exited this product line as a

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result of the asset sale. We recorded a pre-tax loss of \$38.3 million. We will recognize additional cash proceeds in the future as the note is repaid and if the buyer is required to make any performance-based contingent payments.

During the second quarter of fiscal 2009, we sold our *Pop Secret* microwave popcorn product line for \$192.5 million in cash, and we recorded a pre-tax gain of \$128.8 million. We received cash proceeds of \$158.9 million after repayment of a lease obligation and transaction costs.

During the first quarter of fiscal 2009, we acquired Humm Foods, Inc. (Humm Foods), the maker of *Lärabar* fruit and nut energy bars. We issued 0.9 million shares of our common stock with a value of \$55.0 million to the shareholders of Humm Foods as consideration for the acquisition. We recorded the purchase price less tangible and intangible net assets acquired as goodwill of \$41.6 million. The pro forma effect of this acquisition was not material.

During fiscal 2008, the 8th Continent soymilk business was sold. Our 50 percent share of the after-tax gain on the sale was \$2.2 million, of which we recognized \$1.7 million in after-tax earnings from joint ventures in fiscal 2008. We will record an additional after-tax gain of up to \$0.5 million in the first quarter of fiscal 2010 if certain conditions are satisfied. Also during fiscal 2008, we acquired a controlling interest in HD Distributors (Thailand) Company Limited. Prior to acquiring the controlling interest, we accounted for our investment as a joint venture. The purchase price, net of cash acquired, resulted in a \$1.3 million cash inflow classified in acquisitions on the Consolidated Statements of Cash Flows.

During fiscal 2007, we acquired Saxby Bros. Limited, a chilled pastry company in the United Kingdom, for approximately \$24.1 million. This business, which had sales of \$23.8 million in calendar 2006, complements our existing frozen pastry business in the United Kingdom. In addition, we completed an acquisition in Greece for \$2.8 million in fiscal 2007.

During fiscal 2007, our 50 percent joint venture Cereal Partners Worldwide (CPW) completed the acquisition of the Uncle Tobys cereal business in Australia for \$385.6 million. We funded our 50 percent share of the purchase price by making additional advances to and equity contributions in CPW totaling \$135.1 million (classified as investments in affiliates, net, on the Consolidated Statements of Cash Flows) and by acquiring a 50 percent undivided interest in certain intellectual property for \$57.7 million (classified as acquisitions on the Consolidated Statements of Cash Flows). During fiscal 2008, we completed the allocation of our purchase price and reclassified \$16.3 million from goodwill to other intangible assets on our Consolidated Balance Sheets.

NOTE 4. RESTRUCTURING, IMPAIRMENT, AND OTHER EXIT COSTS

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

In fiscal 2009, we recorded restructuring, impairment, and other exit costs pursuant to approved plans as follows:

Expense, in Millions

| | |
|--|---------|
| Closure of Contagem, Brazil bread and pasta plant | \$ 16.8 |
| Discontinuation of product line at Murfreesboro, Tennessee plant | 8.3 |
| Charges associated with restructuring actions previously announced | 16.5 |
| Total | \$ 41.6 |

In fiscal 2009, due to declining financial results, we approved the restructuring of our International segment's business in Brazil. We discontinued the production and marketing of *Forno De Minas* cheese bread and *Frescarini*

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pasta brands in Brazil and closed our Contagem, Brazil manufacturing facility. These actions affected 556 employees in our Brazilian operations. Our other product lines in Brazil are not affected by the decision. As a result of this decision, we incurred a charge of \$16.8 million in the fourth quarter of fiscal 2009, consisting primarily of \$5.3 million of employee severance and a \$10.2 million non-cash impairment charge to write down assets to their net realizable value, and \$1.3 million of other costs associated with this restructuring action. Subsequent to the end of our Brazilian subsidiary's fiscal year end of April 30, 2009, we sold all of the production assets and the *Forno De Minas* brand for proceeds of \$5.9 million. We utilized the values of the production assets established as part of the sale to determine the fiscal 2009 impairment charge. We expect this restructuring action to be completed in the second quarter of fiscal 2010.

Due to declining net sales and to improve manufacturing capacity for other product lines, we decided to exit our U.S. Retail segment's *Perfect Portions* refrigerated biscuits product line at our manufacturing facility in Murfreesboro, Tennessee. We recorded an \$8.0 million non-cash impairment charge against long lived assets used for this product line and \$0.3 million of other costs associated with this restructuring action. Our other product lines at Murfreesboro are not affected by the decision, and no employees were affected by this action, which we expect will be completed in the second quarter of fiscal 2010.

In fiscal 2009, we also incurred \$16.5 million of incremental plant closure expenses related to previously announced restructuring activities, including \$10.3 million for the remainder of our lease obligation at our previously closed facility in Trenton, Ontario.

In fiscal 2008, we recorded restructuring, impairment, and other exit costs pursuant to approved plans as follows:

Expense (Income), in Millions

| | |
|--|---------|
| Closure of Poplar, Wisconsin plant | \$ 2.7 |
| Closure and sale of Allentown, Pennsylvania frozen waffle plant | 9.4 |
| Closure of leased Trenton, Ontario frozen dough plant | 10.9 |
| Restructuring of production scheduling and discontinuation of cake product line at Chanhassen, Minnesota plant | 1.6 |
| Gain on sale of previously closed Vallejo, California plant | (7.1) |
| Charges associated with restructuring actions previously announced | 3.5 |
| Total | \$ 21.0 |

During fiscal 2008, we approved a plan to transfer *Old El Paso* production from our Poplar, Wisconsin facility to other plants and to close the Poplar facility. This action to improve capacity utilization and reduce costs affected 113 employees at the Poplar facility, and resulted in a charge of \$2.7 million consisting entirely of employee severance. Due to declining financial results, we decided to exit our frozen waffle product line (retail and foodservice) and to close our frozen waffle plant in Allentown, Pennsylvania, affecting 111 employees. We recorded a \$3.5 million charge for employee severance and a \$5.9 million non-cash impairment charge against long-lived assets at the plant. We also completed an analysis of the viability of our Bakeries and Foodservice frozen dough facility in Trenton, Ontario, and closed the facility, affecting 470 employees. We recorded an \$8.4 million charge for employee expenses and a \$2.5 million charge for shutdown and decommissioning costs. We also restructured our production scheduling and discontinued our cake production line at our Chanhassen, Minnesota Bakeries and Foodservice plant. These actions affected 125 employees, and we recorded a \$3.0 million charge for employee severance, partially offset by a \$1.4 million gain from the sale of long-lived assets. All of the foregoing actions were completed in fiscal 2009. Finally, we recorded additional charges of \$3.5 million primarily related to previously announced Bakeries and Foodservice segment restructuring actions, including employee severance for 38 employees, that were completed in fiscal 2008.

In addition, during fiscal 2008 we recorded a \$17.7 million non-cash charge related to depreciation associated with restructured assets at our plant in Trenton, Ontario and \$0.8 million of inventory write offs at our plants in

Chanhassen, Minnesota and Allentown, Pennsylvania. These charges are recorded in cost of sales in our Consolidated Statements of Earnings and in unallocated corporate items in our segment results.

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During fiscal 2008, we received \$16.2 million in proceeds from the sale of our Allentown, Pennsylvania plant and our previously closed Vallejo, California plant.

In fiscal 2007, we recorded restructuring, impairment, and other exit costs pursuant to approved plans as follows:

Expense (Income), in Millions

| | |
|---|----------------|
| Non-cash impairment charge for certain Bakeries and Foodservice product lines | \$ 36.7 |
| Gain from our previously closed plant in San Adrian, Spain | (7.3) |
| Loss from divestitures of our par-baked bread and frozen pie product lines | 9.6 |
| Charges associated with restructuring actions previously announced | 0.3 |
| Total | \$ 39.3 |

As part of our long-range planning process, we determined that certain product lines in our Bakeries and Foodservice segment were underperforming. In May 2007, we concluded that the future cash flows generated by these product lines were insufficient to recover the net book value of the related long-lived assets. Accordingly, we recorded a non-cash impairment charge of \$36.7 million against these assets in the fourth quarter of fiscal 2007.

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

| In Millions | Severance | Contract Termination | Other Exit Costs | Total |
|------------------------------------|------------------|---------------------------------|---------------------------------|--------------|
| Reserve balance as of May 28, 2006 | \$ 8.1 | \$ | \$ 6.6 | \$ 14.7 |
| 2007 charges | | | (0.9) | (0.9) |
| Utilized in 2007 | (4.7) | | (4.8) | (9.5) |
| Reserve balance as of May 27, 2007 | 3.4 | | 0.9 | 4.3 |
| 2008 charges | 20.9 | | | 20.9 |
| Utilized in 2008 | (16.7) | | (0.6) | (17.3) |
| Reserve balance as of May 25, 2008 | 7.6 | | 0.3 | 7.9 |
| 2009 charges | 5.5 | 10.3 | | 15.8 |
| Utilized in 2009 | (4.7) | | (0.2) | (4.9) |
| Reserve balance of May 31, 2009 | \$ 8.4 | \$ 10.3 | \$ 0.1 | \$ 18.8 |

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

NOTE 5. INVESTMENTS IN JOINT VENTURES

We have a 50 percent equity interest in CPW, which manufactures and markets ready-to-eat cereal products in more than 130 countries and republics outside the United States and Canada. CPW also markets cereal bars in several European countries and manufactures private label cereals for customers in the United Kingdom. We have guaranteed a portion of CPW's debt and its pension obligation in the United Kingdom. Results from our CPW joint venture are reported for the 12 months ended March 31.

We also have a 50 percent equity interest in Häagen-Dazs Japan, Inc. This joint venture manufactures, distributes, and markets *Häagen-Dazs* ice cream products and frozen novelties. In fiscal 2007, we changed the reporting period for

this joint venture. Accordingly, fiscal 2007 includes only 11 months of results from this joint venture compared to 12 months in fiscal 2009 and fiscal 2008.

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During fiscal 2008, the 8th Continent soy milk business was sold, and our 50 percent share of the after-tax gain on the sale was \$2.2 million, of which \$1.7 million was recorded in fiscal 2008. We will record an additional gain of up to \$0.5 million in the first quarter of fiscal 2010 if certain conditions related to the sale are satisfied.

In fiscal 2006, CPW announced a restructuring of its manufacturing plants in the United Kingdom. Our after-tax share of CPW restructuring, impairment, and other exit costs was as follows:

| Expense (Income), in Millions | Fiscal Year | | |
|--|--------------------|-------------|-------------|
| | 2009 | 2008 | 2007 |
| Gain on sale of property | \$ | \$ (15.9) | \$ |
| Depreciation associated with restructured assets | | 4.5 | 8.2 |
| Other charges resulting from restructuring actions | | 3.2 | |
| Total | \$ | \$ (8.2) | \$ 8.2 |

During the first quarter of fiscal 2007, CPW acquired the Uncle Tobys cereal business in Australia for \$385.6 million. We funded advances and an equity contribution to CPW from cash generated from our international operations, including our international joint ventures.

Joint venture balance sheet activity follows:

| In Millions | May 31, 2009 | May 25, 2008 |
|--------------------------------|-------------------------|-------------------------|
| Cumulative investments | \$ 283.3 | \$ 278.6 |
| Goodwill and other intangibles | 593.9 | 660.2 |
| Aggregate advances | 114.8 | 124.4 |

Joint venture earnings and cash flow activity follows:

| In Millions | Fiscal Year | | |
|---------------------------|--------------------|-------------|-------------|
| | 2009 | 2008 | 2007 |
| Sales to joint ventures | \$ 14.2 | \$ 12.8 | \$ 31.8 |
| Net advances (repayments) | (8.2) | (75.2) | 103.4 |
| Dividends received | 68.5 | 108.7 | 45.2 |

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

| In Millions | Fiscal Year | | |
|------------------------------|--------------------|-------------|-------------|
| | 2009 | 2008 | 2007 |
| Net sales | \$ 2,433.5 | \$ 2,404.2 | \$ 2,016.3 |
| Gross margin | 953.4 | 1,008.4 | 835.4 |
| Earnings before income taxes | 234.7 | 231.7 | 167.3 |
| Earnings after income taxes | 175.3 | 190.4 | 132.0 |

| In Millions | May 31, 2009 | May 25, 2008 |
|--------------------|-------------------------|-------------------------|
|--------------------|-------------------------|-------------------------|

| | | |
|------------------------|----------|------------|
| Current assets | \$ 883.6 | \$ 1,021.5 |
| Noncurrent assets | 895.0 | 1,002.0 |
| Current liabilities | 1,442.8 | 1,592.6 |
| Noncurrent liabilities | 66.9 | 75.9 |

Table of Contents**NOTE 6. GOODWILL AND OTHER INTANGIBLE ASSETS**

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

| In Millions | May 31, 2009 | May 25, 2008 |
|---|-------------------------|-------------------------|
| Goodwill | \$ 6,663.0 | \$ 6,786.1 |
| Other intangible assets: | | |
| Intangible assets not subject to amortization: | | |
| Brands | 3,705.3 | 3,745.6 |
| Intangible assets subject to amortization: | | |
| Patents, trademarks, and other finite-lived intangibles | 56.1 | 44.0 |
| Less accumulated amortization | (14.4) | (12.4) |
| Intangible assets subject to amortization | 41.7 | 31.6 |
| Other intangible assets | 3,747.0 | 3,777.2 |
| Total | \$ 10,410.0 | \$ 10,563.3 |

The changes in the carrying amount of goodwill for fiscal 2007, 2008, and 2009 are as follows:

| In Millions | U.S. Retail | International | Bakeries and Foodservice | Joint Ventures | Total |
|---|------------------------|----------------------|---|---------------------------|--------------|
| Balance as of May 28, 2006 | \$ 4,960.0 | \$ 137.6 | \$ 1,201.1 | \$ 353.3 | \$ 6,652.0 |
| Reclassification for customer shift | 216.0 | | (216.0) | | |
| Acquisitions | | 23.4 | | 15.0 | 38.4 |
| Deferred tax adjustment resulting from tax audit settlement | 13.1 | 0.2 | 3.6 | 1.1 | 18.0 |
| Divestitures | | | (6.9) | | (6.9) |
| Other activity, primarily foreign currency translation | 13.8 | (19.0) | | 139.1 | 133.9 |
| Balance as of May 27, 2007 | 5,202.9 | 142.2 | 981.8 | 508.5 | 6,835.4 |
| Finalization of purchase accounting | | (0.3) | | (16.3) | (16.6) |
| Adoption of FIN 48 | (110.9) | (10.6) | (30.4) | | (151.9) |
| Other activity, primarily foreign currency translation | 15.0 | 15.1 | 4.3 | 84.8 | 119.2 |
| Balance as of May 25, 2008 | 5,107.0 | 146.4 | 955.7 | 577.0 | 6,786.1 |
| Acquisition of Humm Foods | 41.6 | | | | 41.6 |
| Divestitures | (17.8) | (0.1) | (23.7) | | (41.6) |
| Deferred tax adjustments related to divestitures | (46.5) | (4.5) | (12.8) | | (63.8) |
| | 14.0 | 1.3 | 3.8 | | 19.1 |

| | | | | | |
|---|------------|----------|----------|----------|------------|
| Deferred tax adjustment resulting from change in acquisition-related income tax liabilities | | | | | |
| Other activity, primarily foreign currency translation | | (19.8) | | (58.6) | (78.4) |
| Balance as of May 31, 2009 | \$ 5,098.3 | \$ 123.3 | \$ 923.0 | \$ 518.4 | \$ 6,663.0 |

During fiscal 2007, as part of our annual goodwill and brand intangible impairment assessments, we reviewed our goodwill and other intangible asset allocations by country within the International segment and our joint ventures. The resulting reallocation of these balances across the countries within this segment and to our joint ventures caused

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changes in the foreign currency translation of the balances. As a result of these changes in foreign currency translation, we increased goodwill by \$136.2 million, other intangible assets by \$18.1 million, deferred income taxes by \$9.2 million, and accumulated other comprehensive income (loss) by the net of these amounts.

At the beginning of fiscal 2007, we shifted selling responsibility for several customers from our Bakeries and Foodservice segment to our U.S. Retail segment. Goodwill of \$216.0 million previously reported in our Bakeries and Foodservice segment as of May 28, 2006 has now been recorded in the U.S. Retail segment.

The changes in the carrying amount of other intangible assets for fiscal 2007, 2008, and 2009 are as follows:

| In Millions | U.S. | | Joint | |
|--|------------|---------------|----------|------------|
| | Retail | International | Ventures | Total |
| Balance as of May 28, 2006 | \$ 3,175.5 | \$ 420.2 | \$ 11.4 | \$ 3,607.1 |
| Other intangibles acquired | | 1.3 | 44.5 | 45.8 |
| Other activity, primarily foreign currency translation | (0.3) | 39.4 | 2.0 | 41.1 |
| Balance as of May 27, 2007 | 3,175.2 | 460.9 | 57.9 | 3,694.0 |
| Finalization of purchase accounting | | 15.6 | 16.3 | 31.9 |
| Other activity, primarily foreign currency translation | | 42.3 | 9.0 | 51.3 |
| Balance as of May 25, 2008 | 3,175.2 | 518.8 | 83.2 | 3,777.2 |
| Acquisition of Humm Foods | 19.4 | | | 19.4 |
| Other activity, primarily foreign currency translation | 14.3 | (56.2) | (7.7) | (49.6) |
| Balance as of May 31, 2009 | \$ 3,208.9 | \$ 462.6 | \$ 75.5 | \$ 3,747.0 |

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

The carrying values of cash and cash equivalents, receivables, accounts payable, other current liabilities, and notes payable approximate fair value. Marketable securities are carried at fair value. As of May 31, 2009, and May 25, 2008, a comparison of cost and market values of our marketable debt and equity securities is as follows:

| In Millions | Cost | | Market Value | | Gross Gains | | Gross Losses | |
|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Fiscal Year 2009 | Fiscal Year 2008 | Fiscal Year 2009 | Fiscal Year 2008 | Fiscal Year 2009 | Fiscal Year 2008 | Fiscal Year 2009 | Fiscal Year 2008 |
| Available for sale: | | | | | | | | |
| Debt securities | \$ 35.1 | \$ 20.5 | \$ 35.0 | \$ 20.7 | \$ 0.1 | \$ 0.2 | \$ (0.2) | \$ |
| Equity securities | 6.1 | 6.1 | 13.8 | 14.0 | 7.7 | 7.9 | | |
| Total | \$ 41.2 | \$ 26.6 | \$ 48.8 | \$ 34.7 | \$ 7.8 | \$ 8.1 | \$ (0.2) | \$ |

Earnings include insignificant realized gains from sales of available-for-sale marketable securities. Gains and losses are determined by specific identification. Classification of marketable securities as current or noncurrent is dependent upon management's intended holding period, the security's maturity date, or both. The aggregate unrealized gains and

losses on available-for-sale securities, net of tax effects, are classified in accumulated other comprehensive income (loss) within stockholders' equity. Scheduled maturities of our marketable securities are as follows:

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| In Millions | Available for Sale | |
|------------------------|---------------------------|---------------------|
| | Cost | Market Value |
| Under 1 year (current) | \$ 27.8 | \$ 27.9 |
| From 1 to 3 years | 0.6 | 0.6 |
| From 4 to 7 years | 4.1 | 3.9 |
| Over 7 years | 2.6 | 2.6 |
| Equity securities | 6.1 | 13.8 |
| Total | \$ 41.2 | \$ 48.8 |

Marketable securities with a market value of \$27.9 million as of May 31, 2009, were pledged as collateral for certain derivative contracts.

The fair values and carrying amounts of long-term debt, including the current portion, were \$6,547.1 million and \$6,263.3 million as of May 31, 2009, and \$4,926.3 million and \$4,790.7 million as of May 25, 2008. The fair value of long-term debt was estimated using discounted cash flows based on our current incremental borrowing rates for similar types of instruments.

RISK MANAGEMENT ACTIVITIES

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

COMMODITY PRICE RISK

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

As discussed in Note 2, we do not perform the assessments required to achieve hedge accounting for commodity derivative positions entered into after the beginning of fiscal 2008. Pursuant to this policy, unallocated corporate items for fiscal 2009 and fiscal 2008 included:

| In Millions | 2009 | 2008 |
|--|-------------|-------------|
| Net gain (loss) on mark-to-market valuation of commodity positions | \$ (249.6) | \$ 115.3 |
| Net loss (gain) on commodity positions reclassified from unallocated corporate items to segment operating profit | 134.8 | (55.7) |
| Net mark-to-market revaluation of certain grain inventories | (4.1) | (2.6) |
| Net mark-to-market valuation of certain commodity positions recognized in unallocated corporate items | \$ (118.9) | \$ 57.0 |

As of May 31, 2009, the net notional value of commodity derivatives was \$191.3 million, of which \$67.9 million related to agricultural positions and \$123.4 million related to energy positions. These contracts relate to inputs that generally will be utilized within the next 12 months.

Table of Contents**INTEREST RATE RISK**

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

Floating Interest Rate Exposures Except as discussed below, floating-to-fixed interest rate swaps are accounted for as cash flow hedges, as are all hedges of forecasted issuances of debt. Effectiveness is assessed based on either the perfectly effective hypothetical derivative method or changes in the present value of interest payments on the underlying debt. Amounts deferred to accumulated other comprehensive income (loss) are reclassified into earnings over the life of the associated debt. The amount of hedge ineffectiveness was less than \$1 million in each of fiscal 2009, 2008, and 2007.

Fixed Interest Rate Exposures Fixed-to-floating interest rate swaps are accounted for as fair value hedges with effectiveness assessed based on changes in the fair value of the underlying debt, using incremental borrowing rates currently available on loans with similar terms and maturities. Effective gains and losses on these derivatives and the underlying hedged items are recorded as net interest. The amount of hedge ineffectiveness was less than \$1 million in each of fiscal 2009, 2008, and 2007.

In anticipation of our acquisition of The Pillsbury Company (Pillsbury) and other financing needs, we entered into pay-fixed interest rate swap contracts during fiscal 2001 and 2002 totaling \$7.1 billion to lock in our interest payments on the associated debt. As of May 31, 2009, we still owned \$1.8 billion of Pillsbury-related pay-fixed swaps that were previously neutralized with offsetting pay-floating swaps in fiscal 2002.

In advance of a planned debt financing in fiscal 2007, we entered into \$700.0 million pay-fixed, forward-starting interest rate swaps with an average fixed rate of 5.7 percent. All of these forward-starting interest rate swaps were cash settled for \$22.5 million coincident with our \$1.0 billion 10-year fixed-rate note offering on January 24, 2007. As of May 31, 2009, a \$17.1 million pre-tax loss remained in accumulated other comprehensive income (loss), which will be reclassified to earnings over the term of the underlying debt.

The following table summarizes the notional amounts and weighted-average interest rates of our interest rate swaps. As discussed above, we have neutralized all of our Pillsbury-related pay-fixed swaps with pay-floating swaps; however, we cannot present them on a net basis in the following table because the offsetting occurred with different counterparties. Average floating rates are based on rates as of the end of the reporting period.

| In Millions | May 31, 2009 | May 25, 2008 |
|------------------------------------|-------------------------|-------------------------|
| Pay-floating swaps notional amount | \$ 1,859.3 | \$ 1,879.5 |
| Average receive rate | 5.7% | 5.8% |
| Average pay rate | 0.3% | 2.5% |
| Pay-fixed swaps notional amount | \$ 2,250.0 | \$ 2,250.0 |
| Average receive rate | 0.5% | 2.6% |
| Average pay rate | 6.4% | 6.4% |

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The swap contracts mature at various dates from 2010 to 2016 as follows:

| In Millions | Fiscal Year Maturity Date | |
|-------------|------------------------------|--------------|
| | Pay Floating | Pay Fixed |
| 2010 | \$ 18.9 | \$ 500.0 |
| 2011 | 17.6 | |
| 2012 | 1,753.3 | 1,000.0 |
| 2013 | 14.6 | 750.0 |
| 2014 | | |
| Beyond 2014 | 54.9 | |
| Total | \$ 1,859.3 | \$ 2,250.0 |

FOREIGN EXCHANGE RISK

Foreign currency fluctuations affect our net investments in foreign subsidiaries and foreign currency cash flows related to foreign-dominated commercial paper, third party purchases, intercompany loans, and product shipments. We are also exposed to the translation of foreign currency earnings to the U.S. dollar. Our principal exposures are to the Australian dollar, British pound sterling, Canadian dollar, Chinese renminbi, euro, Japanese yen, and Mexican peso. We mainly use foreign currency forward contracts to selectively hedge our foreign currency cash flow exposures. We also generally swap our foreign-dominated commercial paper borrowings back to U.S. dollars; the gains or losses on these derivatives offset the foreign currency revaluation gains or losses recorded in earnings on the associated borrowings. We generally do not hedge more than 12 months forward.

The amount of hedge ineffectiveness was less than \$1 million in fiscal 2009, fiscal 2008, and fiscal 2007.

We also have many net investments in foreign subsidiaries that are denominated in euros. We previously hedged a portion of these net investments by issuing euro-denominated commercial paper and foreign exchange forward contracts. As of May 31, 2009, we had deferred net foreign currency transaction losses of \$95.7 million in accumulated other comprehensive income (loss) associated with this hedging activity.

FAIR VALUE MEASUREMENTS AND FINANCIAL STATEMENT PRESENTATION

We categorize assets and liabilities into one of three levels based on the assumptions (inputs) used in valuing the asset or liability. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's assumptions about the inputs used in pricing the asset or liability.

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The fair values of our financial assets, liabilities, and derivative positions as of May 31, 2009, were as follows:

| In Millions | Fair Values of Assets | | | | Fair Values of Liabilities | | | |
|---|-----------------------|----------|---------|----------|----------------------------|------------|---------|------------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Derivatives designated as hedging instruments: | | | | | | | | |
| Interest rate contracts (a) (d) | \$ | \$ | \$ | \$ | \$ | \$ (5.1) | \$ | \$ (5.1) |
| Foreign exchange contracts (b) (c) | | 5.7 | | 5.7 | | (25.8) | | (25.8) |
| Total | | 5.7 | | 5.7 | | (30.9) | | (30.9) |
| Derivatives not designated as hedging instruments: | | | | | | | | |
| Interest rate contracts (a) (d) | | 189.8 | | 189.8 | | (253.6) | | (253.6) |
| Equity contracts (a) (e) | | | | | | (1.5) | | (1.5) |
| Commodity contracts (b) (g) | 9.9 | 13.2 | | 23.1 | | (9.9) | | (9.9) |
| Total | 9.9 | 203.0 | | 212.9 | | (265.0) | | (265.0) |
| Other assets and liabilities reported at fair value: | | | | | | | | |
| Marketable investments (f) | 13.8 | 35.0 | | 48.8 | | | | |
| Grain contracts (g) | | 14.3 | | 14.3 | | (12.8) | | (12.8) |
| Total | 13.8 | 49.3 | | 63.1 | | (12.8) | | (12.8) |
| Total financial assets, liabilities, and derivative positions | \$ 23.7 | \$ 258.0 | \$ | \$ 281.7 | \$ | \$ (308.7) | \$ | \$ (308.7) |

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

(b) These contracts are recorded as prepaid expenses and other current

assets or as other current liabilities, as appropriate, based on whether in a gain or loss position.

- (c) Based on observable market transactions of spot currency rates and forward currency prices.
- (d) Based on LIBOR and swap rates.
- (e) Based on LIBOR, swap, and equity index swap rates.
- (f) Based on prices of common stock and bond matrix pricing.
- (g) Based on prices of futures exchanges and recently reported transactions in the marketplace.

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

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Information related to our cash flow hedges, net investment hedges, and other derivatives not designated as hedging instruments for the fiscal year ended May 31, 2009, follows:

| In Millions | Interest Foreign | | | | Total |
|--|-------------------|-----------------------|---------------------|------------------------|---------|
| | Rate Contracts | Exchange Contracts | Equity Contracts | Commodity Contracts | |
| Derivatives in Cash Flow Hedging Relationships: | | | | | |
| Amount of gain (loss) recognized in OCI (a) | \$ (1.1) | \$ 9.1 | \$ | \$ | \$ 8.0 |
| Amount of gain (loss) reclassified from AOCI into earnings (a) (b) | 15.8 | (27.7) | | | (11.9) |
| Amount of gain (loss) recognized in earnings (c) (d) | (0.1) | 0.3 | | | 0.2 |
| Derivatives in Net Investment Hedging Relationships: | | | | | |
| Amount of gain (loss) recognized in OCI (a) | | 6.0 | | | 6.0 |
| Derivatives Not Designated as Hedging Instruments: | | | | | |
| Amount of gain (loss) recognized in earnings (e) | 3.3 | (70.2) | 0.2 | (249.6) | (316.3) |

(a) Effective portion.

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

(c) All gain (loss) recognized in earnings is related to the ineffective portion of the hedging relationship. No amounts were reported as a result of being excluded from the assessment of hedge effectiveness.

- (d) Gain
(loss) recognized
in earnings is
reported in
interest, net for
interest rate
swaps and in
SG&A for foreign
exchange
contracts.

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

AMOUNTS RECORDED IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Unrealized losses from interest rate cash flow hedges recorded in accumulated other comprehensive income (loss) as of May 31, 2009, totaled \$29.0 million after tax. These deferred losses are primarily related to interest rate swaps we entered into in contemplation of future borrowings and other financing requirements and are being reclassified into net interest over the lives of the hedged forecasted transactions. As of May 31, 2009, we had no amounts from commodity derivatives recorded in accumulated other comprehensive income (loss). Unrealized losses from foreign currency cash flow hedges recorded in accumulated other comprehensive income (loss) as of May 31, 2009, were \$12.9 million after-tax. The net amount of pre-tax gains and losses in accumulated other comprehensive income (loss) as of May 31, 2009, that is expected to be reclassified into net earnings within the next 12 months is \$33.8 million of expense.

CREDIT-RISK-RELATED CONTINGENT FEATURES

Certain of our derivative instruments contain provisions that require us to maintain an investment grade credit rating on our debt from each of the major credit rating agencies. If our debt were to fall below investment grade, the counterparties to the derivative instruments could request full collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on May 31, 2009, was \$35.8 million. We have posted collateral of \$21.5 million in the normal course of business associated with these contracts. If the credit-risk-related contingent features underlying these agreements were triggered on May 31, 2009, we would be required to post an additional \$14.3 million of collateral to the counterparties.

CONCENTRATIONS OF CREDIT AND COUNTERPARTY CREDIT RISK

During fiscal 2009, Wal-Mart Stores, Inc. and its affiliates (Wal-Mart) accounted for 21 percent of our consolidated net sales and 29 percent of our net sales in the U.S. Retail segment. No other customer accounted for 10 percent or

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more of our consolidated net sales. Wal-Mart also represented 6 percent of our net sales in the International segment and 5 percent of our net sales in the Bakeries and Foodservice segment. As of May 31, 2009, Wal-Mart accounted for 25 percent of our U.S. Retail receivables, 5 percent of our International receivables, and 15 percent of our Bakeries and Foodservice receivables. The five largest customers in our U.S. Retail segment accounted for 54 percent of its fiscal 2009 net sales, the five largest customers in our International segment accounted for 28 percent of its fiscal 2009 net sales, and the five largest customers in our Bakeries and Foodservice segment accounted for 41 percent of its fiscal 2009 net sales.

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

The maximum amount of loss due to the credit risk of the counterparties, should the counterparties fail to perform according to the terms of the contracts, is \$45.9 million against which we hold \$24.8 million of collateral. Under the terms of master swap agreements, some of our transactions require collateral or other security to support financial instruments subject to threshold levels of exposure and counterparty credit risk. Collateral assets are either cash or U.S. Treasury instruments and are held in a trust account that we can access if a counterparty defaults.

NOTE 8. DEBT**Notes Payable**

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

| In Millions | May 31, 2009 | | May 25, 2008 | |
|------------------------|---------------|--------------------------------|---------------|--------------------------------|
| | Notes Payable | Weighted-Average Interest Rate | Notes Payable | Weighted-Average Interest Rate |
| U.S. commercial paper | \$ 401.8 | 0.5% | \$ 687.5 | 2.9% |
| Euro commercial paper | 275.0 | 0.5 | 1,386.3 | 3.4 |
| Financial institutions | 135.4 | 12.9 | 135.0 | 9.6 |
| Total notes payable | \$ 812.2 | 2.6% | \$ 2,208.8 | 3.6% |

To ensure availability of funds, we maintain bank credit lines sufficient to cover our outstanding short-term borrowings. Commercial paper is a continuing source of short-term financing. We issue commercial paper in the United States, Canada, and Europe. Our commercial paper borrowings are supported by \$2.9 billion of fee-paid committed credit lines, consisting of a \$1.8 billion facility expiring in October 2012 and a \$1.1 billion facility expiring in October 2010. We also have \$401.9 million in uncommitted credit lines, which support our foreign operations. As of May 31, 2009, there were no amounts outstanding on the fee-paid committed credit lines and \$134.7 million was drawn on the uncommitted lines. The credit facilities contain several covenants with which we were in compliance as of May 31, 2009, including a requirement to maintain a fixed charge coverage ratio of at least 2.5.

Long-Term Debt

In January 2009, we sold \$1.2 billion aggregate principal amount of our 5.65 percent notes due 2019. In August 2008, we sold \$700.0 million aggregate principal amount of our 5.25 percent notes due 2013. The proceeds of these notes were used to repay a portion of our outstanding commercial paper. Interest on the notes is payable semi-annually in arrears. These notes may be redeemed at our option at any time for a specified make-whole amount. These notes are senior unsecured, unsubordinated obligations that include a change of control repurchase provision.

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In March 2008, we sold \$750.0 million aggregate principal amount of our 5.2 percent notes due 2015, and in August 2007, we sold \$700.0 million aggregate principal amount of our 5.65 percent notes due 2012. The proceeds of the notes were used to repay outstanding commercial paper. Interest on the notes is payable semi-annually in arrears. The notes may be redeemed at our option at any time for a specified make-whole amount. These notes are senior unsecured, unsubordinated obligations that include a change of control repurchase provision.

In April 2007, we issued \$1.15 billion of floating rate convertible senior notes. In April 2008, holders of \$1.14 billion of those notes tendered them to us for repurchase. In April 2009, we repurchased all of the remaining \$9.5 million of outstanding notes. We issued commercial paper to fund the repurchases.

Our credit facilities and certain of our long-term debt agreements contain restrictive covenants. As of May 31, 2009, we were in compliance with all of these covenants.

As of May 31, 2009, the \$47.0 million pre-tax loss recorded in accumulated other comprehensive income (loss) associated with our previously designated interest rate swaps will be reclassified to net interest over the remaining lives of the hedged transactions. The amount expected to be reclassified from accumulated other comprehensive income (loss) to net interest in fiscal 2010 is \$15.2 million pre-tax.

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

| In Millions | May 31, 2009 | May 25, 2008 |
|---|-------------------------|-------------------------|
| 6% notes due February 15, 2012 | \$ 1,240.3 | \$ 1,240.3 |
| 5.65% notes due February 15, 2019 | 1,150.0 | |
| 5.7% notes due February 15, 2017 | 1,000.0 | 1,000.0 |
| 5.2% notes due March 17, 2015 | 750.0 | 750.0 |
| 5.25% notes due August 15, 2013 | 700.0 | |
| 5.65% notes due September 10, 2012 | 700.0 | 700.0 |
| Floating-rate notes due January 22, 2010 | 500.0 | 500.0 |
| Debt of consolidated contract manufacturer | 26.5 | 31.8 |
| Medium-term notes, 4.8% to 9.1%, due 2009 or later (a) | 204.4 | 327.3 |
| Zero coupon notes, yield 11.1% (b) | | 150.6 |
| Floating-rate convertible senior notes due April 11, 2037 | | 9.5 |
| Other, including capital leases | (7.9) | 81.2 |
| | 6,263.3 | 4,790.7 |
| Less amount due within one year | (508.5) | (442.0) |
| Total long-term debt | \$ 5,754.8 | \$ 4,348.7 |

(a) Holders of \$25.6 million of our medium-term notes put these to us for repurchase in fiscal 2009, and an additional \$97.2 million matured in fiscal 2009.

- (b) We redeemed these notes on August 15, 2008. The final payment on that date was \$154.3 million.

Principal payments due on long-term debt in the next five years based on stated contractual maturities, our intent to redeem, or put rights of certain note holders are \$508.5 million in fiscal 2010, \$109.0 million in fiscal 2011, \$1,253.5 million in fiscal 2012, \$1,514.6 million in fiscal 2013, and \$3.3 million in fiscal 2014.

NOTE 9. MINORITY INTERESTS

In April 2002, we contributed assets with an aggregate fair market value of \$4.2 billion to our subsidiary GMC. The contributed assets consist primarily of manufacturing assets and intellectual property associated with the production and retail sale of Big G cereals, *Progresso* soups, and *Old El Paso* products in the United States. In exchange for the contribution of these assets, GMC issued its managing membership interest and its limited preferred membership interests to certain of our wholly owned subsidiaries. We continue to hold the entire managing membership interest, and therefore direct the operations of GMC. Other than the right to consent to certain actions, holders of the limited preferred membership interests do not participate in the management of GMC. We currently hold all interests in GMC other than the Class A Limited Membership Interests (Class A Interests).

In May 2002, we sold 150,000 Class A Interests to an unrelated third-party investor for \$150.0 million. In June 2007, we sold an additional 88,851 Class A Interests to the same unrelated third-party investor for \$92.3 million. As of May 31, 2009, the carrying value of all outstanding Class A Interests on our Consolidated Balance Sheets was \$242.3 million.

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In October 2004, we sold 835,000 Series B-1 Limited Membership Interests (Series B-1 Interests) in GMC to a different unrelated third-party investor for \$835.0 million. In August 2007, General Mills Sales, Inc., our wholly owned subsidiary, purchased for a net amount of \$843.0 million all of the outstanding Series B-1 Interests as part of a required remarketing of those interests. The purchase price reflected the Series B-1 Interests' original capital account balance of \$835.0 million and \$8.0 million of capital account appreciation attributable and paid to the third party holder of the Series B-1 Interests. The capital appreciation paid to the third party holder of the Series B-1 Interests was recorded as a reduction to retained earnings, a component of stockholders' equity, on the Consolidated Balance Sheets, and reduced net earnings available to common stockholders in our basic and diluted EPS calculations.

The holder of the Class A Interests receives quarterly preferred distributions from available net income based on the application of a floating preferred return rate, currently equal to the sum of three-month LIBOR plus 65 basis points, to the holder's capital account balance established in the most recent mark-to-market valuation (currently \$248.1 million). The Fifth Amended and Restated Limited Liability Company Agreement of GMC requires that the preferred return rate of the Class A Interests be adjusted every five years through a negotiated agreement between the Class A Interest holder and GMC, or through a remarketing auction. The next remarketing is scheduled to occur in June 2012 and thereafter in five-year intervals. Upon a failed remarketing, the preferred return rate over three-month LIBOR will be increased by 75 basis points until the next remarketing, which will occur in 3 month intervals until a successful remarketing occurs or the managing member purchases the Class A Interests. The managing member may at any time elect to purchase all of the Class A Interests for an amount equal to the holder's capital account balance (as adjusted in a mark-to-market valuation), plus any accrued but unpaid preferred returns and the prescribed make-whole amount.

Holders of the Class A Interests may initiate a liquidation of GMC under certain circumstances, including, without limitation, the bankruptcy of GMC or its subsidiaries, GMC's failure to deliver the preferred distributions on the Class A Interests, GMC's failure to comply with portfolio requirements, breaches of certain covenants, lowering of our senior debt rating below either Baa3 by Moody's or BBB- by S&P, and a failed attempt to remarket the Class A Interests as a result of GMC's failure to assist in such remarketing. In the event of a liquidation of GMC, each member of GMC will receive the amount of its then current capital account balance. The managing member may avoid liquidation by exercising its option to purchase the Class A Interests.

For financial reporting purposes, the assets, liabilities, results of operations, and cash flows of GMC are included in our Consolidated Financial Statements. The return to the third party investor is reflected in net interest in the Consolidated Statements of Earnings. The third party investor's interests in GMC are classified as minority interests on our Consolidated Balance Sheets.

As discussed above, we may exercise our option to purchase the Class A Interests for consideration equal to the then current capital account value, plus any unpaid preferred return and the prescribed make-whole amount. If we purchase these interests, any change in the unrelated third party investor's capital account from its original value will be charged directly to retained earnings and will increase or decrease the net earnings used to calculate EPS in that period.

Our minority interests contain restrictive covenants. As of May 31, 2009, we were in compliance with all of these covenants.

General Mills Capital, Inc. was formed in July 2002 for the purpose of purchasing and collecting our receivables and previously sold \$150.0 million of its Series A preferred stock to an unrelated third-party investor. In June 2007, we redeemed all of the Series A preferred stock. We used commercial paper borrowings and proceeds from the sale of the additional Class A Interests in GMC to fund the redemption. There was no gain or loss associated with this transaction.

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NOTE 10. STOCKHOLDERS EQUITY

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

On December 10, 2007, our Board of Directors approved the retirement of 125.0 shares of common stock in treasury.

This action reduced common stock by \$12.5 million, reduced additional paid-in capital by \$5,068.3 million, and reduced common stock in treasury by \$5,080.8 million on our Consolidated Balance Sheets.

During fiscal 2009, we repurchased 20.2 million shares of our common stock for an aggregate purchase price of \$1,296.4 million. During fiscal 2008, we repurchased 23.9 million shares of our common stock for an aggregate purchase price of \$1384.6 million. During fiscal 2007, we repurchased 25.3 million shares of our common stock for an aggregate purchase price of \$1385.1 million, of which \$64.5 million settled after the end of our fiscal year. In fiscal 2007, our Board of Directors authorized the repurchase of up to 75 million shares of our common stock. Purchases under the authorization can be made in the open market or in privately negotiated transactions, including the use of call options and other derivative instruments, Rule 10b5-1 trading plans, and accelerated repurchase programs. The authorization has no specified termination date.

In October 2004, Lehman Brothers Holdings Inc. (Lehman Brothers) issued \$750.0 million of notes, which were mandatorily exchangeable for shares of our common stock. In connection with the issuance of those notes, an affiliate of Lehman Brothers entered into a forward purchase contract with us, under which we were obligated to deliver to such affiliate between 14.0 million and 17.0 million shares of our common stock, subject to adjustment under certain circumstances. We delivered 14.3 million shares in October 2007, in exchange for \$750.0 million in cash from Lehman Brothers. We used the cash to reduce outstanding commercial paper balances.

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

| In Millions | Pretax | Tax | Net |
|--|---------------|------------|--------------|
| Fiscal 2007: | | | |
| Foreign currency translation | \$ 193.8 | \$ | \$ 193.8 |
| Minimum pension liability | (33.5) | 12.7 | (20.8) |
| Other fair value changes: | | | |
| Securities | 2.0 | (0.7) | 1.3 |
| Hedge derivatives | 11.4 | (4.9) | 6.5 |
| Reclassification to earnings: | | | |
| Hedge derivatives | 22.8 | (8.3) | 14.5 |
| Other comprehensive income | \$ 196.5 | \$ (1.2) | \$ 195.3 |
| Fiscal 2008: | | | |
| Foreign currency translation | \$ 246.3 | \$ | \$ 246.3 |
| Minimum pension liability | 61.4 | (22.0) | 39.4 |
| Other fair value changes: | | | |
| Securities | 1.5 | (0.6) | 0.9 |
| Hedge derivatives | 59.6 | (21.3) | 38.3 |
| Reclassification to earnings: | | | |
| Hedge derivatives | (64.5) | 23.5 | (41.0) |
| Amortization of losses and prior service costs | 20.6 | (8.1) | 12.5 |
| Other comprehensive income | \$ 324.9 | \$ (28.5) | \$ 296.4 |
| Fiscal 2009: | | | |
| Foreign currency translation | \$ (287.8) | \$ | \$ (287.8) |
| Net actuarial loss arising during period | (1,254.0) | 477.8 | (776.2) |
| Other fair value changes: | | | |
| Securities | (0.6) | 0.2 | (0.4) |
| Hedge derivatives | 8.0 | (3.4) | 4.6 |
| Reclassification to earnings: | | | |
| Hedge derivatives | (11.9) | 4.6 | (7.3) |
| Amortization of losses and prior service costs | 24.2 | (9.2) | 15.0 |
| Other comprehensive loss | \$ (1,522.1) | \$ 470.0 | \$ (1,052.1) |

During fiscal 2009, we incurred unrecognized losses in excess of \$1.1 billion on assets, primarily equity securities, in our defined benefit pension and other postretirement benefit plans. These losses are currently recognized in other comprehensive income. In future years, the losses will be reflected in pension expense using the market-related value of the plan assets over a five year period, and amortized using a declining balance method over the average remaining service period of active plan participants.

In fiscal 2009, 2008 and 2007, except for reclassifications to earnings, changes in other comprehensive income (loss) were primarily non-cash items.

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

| In Millions | May 31, 2009 | May 25, 2008 |
|---|-------------------------|-------------------------|
| Foreign currency translation adjustments | \$ 360.6 | \$ 648.4 |
| Unrealized gain (loss) from: | | |
| Securities | 4.4 | 4.8 |
| Hedge derivatives | (41.9) | (39.2) |
| Pension, other postretirement, and postemployment benefits: | | |
| Net actuarial loss | (1,168.2) | (400.4) |
| Prior service costs | (30.3) | (36.9) |
| Accumulated other comprehensive income (loss) | \$ (875.4) | \$ 176.7 |

NOTE 11. STOCK PLANS

We use broad-based stock plans to help ensure that management's interests are aligned with those of our stockholders. As of May 31, 2009, a total of 5,963,996 shares were available for grant in the form of stock options, restricted shares, restricted stock units, and shares of common stock under the 2007 Stock Compensation Plan (2007 Plan) and the 2006 Compensation Plan for Non-Employee Directors (2006 Director Plan). On September 24, 2007, our stockholders approved the 2007 Plan, replacing the 2005 Stock Compensation Plan (2005 Plan). Restricted shares and restricted stock units may also be granted under our Executive Incentive Plan (EIP) through September 25, 2010. The 2007 Plan and EIP also provide for the issuance of cash-settled share-based payments. Stock-based awards now outstanding include some granted under the 1993, 1995, 1996, 1998 (senior management), 1998 (employee), 2001, 2003, and 2005 stock plans, under which no further awards may be granted. The stock plans provide for full vesting of options, restricted shares, restricted stock units, and cash-settled share-based payments upon completion of specified service periods or in certain circumstances, following a change of control.

Stock Options

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

| | 2009 | Fiscal Year 2008 | 2007 |
|--|-------------|-----------------------------|-------------|
| Estimated fair values of stock options granted | \$ 9.41 | \$ 10.55 | \$ 10.74 |
| Assumptions: | | | |
| Risk-free interest rate | 4.4% | 5.1% | 5.3% |
| Expected term | 8.5 years | 8.5 years | 8.0 years |
| Expected volatility | 16.1% | 15.6% | 19.7% |
| Dividend yield | 2.7% | 2.7% | 2.8% |

The valuation of stock options is a significant accounting estimate which requires us to use judgments and assumptions that are likely to have a material impact on our financial statements. Annually, we make predictive assumptions regarding future stock price volatility, employee exercise behavior, 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. For the fiscal 2009 grants, we have excluded historical volatility for fiscal 2002 and prior, primarily because volatility driven by our acquisition of Pillsbury in fiscal 2002 does not reflect what we believe to be expected future 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.

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Our expected term represents the period of time that options granted are expected to be outstanding based on historical data to estimate option exercise and employee termination within the valuation model. Separate groups of employees have similar historical exercise behavior and therefore were aggregated into a single pool for valuation purposes. The weighted-average expected term for all employee groups is presented in the table above. Our valuation model assumes that dividends and our share price increase in line with earnings, resulting in a constant dividend yield. The risk-free interest rate for periods during the expected term of the options is based on the U.S. Treasury zero-coupon yield curve in effect at the time of grant.

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

Realized windfall tax benefits are credited to additional paid-in capital within the Consolidated Balance Sheets. Realized shortfall tax benefits (amounts which are less than that previously recognized in earnings) are first offset against the cumulative balance of windfall tax benefits, if any, and then charged directly to income tax expense, potentially resulting in volatility in our consolidated effective income tax rate. We calculated a cumulative memo balance of windfall tax benefits from post-1995 fiscal years for the purpose of accounting for future shortfall tax benefits.

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

Information on stock option activity follows:

| | Options Exercisable (Thousands) | Weighted- Average Exercise Price per Share | Options Outstanding (Thousands) | Weighted- Average Exercise Price per Share |
|----------------------------|--|---|--|---|
| Balance as of May 28, 2006 | 42,071.9 | \$ 39.93 | 58,203.1 | \$ 41.45 |
| Granted | | | 5,284.9 | 51.34 |
| Exercised | | | (9,382.2) | 37.41 |
| Forfeited or expired | | | (332.6) | 46.11 |
| Balance as of May 27, 2007 | 39,505.9 | 41.16 | 53,773.2 | 43.09 |
| Granted | | | 5,499.4 | 58.76 |
| Exercised | | | (6,135.1) | 37.50 |
| Forfeited or expired | | | (116.3) | 50.42 |
| Balance as of May 25, 2008 | 38,194.6 | 42.46 | 53,021.2 | 45.35 |
| Granted | | | 3,247.7 | 63.49 |
| Exercised | | | (8,774.2) | 39.21 |
| Forfeited or expired | | | (191.2) | 55.00 |
| Balance as of May 31, 2009 | 33,809.6 | \$ 43.93 | 47,303.5 | \$ 47.69 |

Stock-based compensation expense related to stock option awards was \$40.0 million in fiscal 2009, \$52.8 million in fiscal 2008, and \$54.0 million in fiscal 2007.

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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 | Fiscal Year | | |
|--------------------------------------|-------------|----------|----------|
| | 2009 | 2008 | 2007 |
| Net cash proceeds | \$ 305.9 | \$ 192.0 | \$ 307.0 |
| Intrinsic value of options exercised | 226.7 | 134.4 | 177.3 |

Restricted Stock, Restricted Stock Units, and Cash-Settled Share-Based Payments

Stock and units settled in stock subject to a restricted period and a purchase price, if any (as determined by the Compensation Committee of the Board of Directors), may be granted to key employees under the 2007 Plan. Restricted shares and restricted stock units, up to 50 percent of the value of an individual's cash incentive award, may also be granted through the EIP. Certain restricted stock and restricted stock unit awards require the employee to deposit personally owned shares (on a one-for-one basis) with us during the restricted period. Restricted stock and restricted stock units generally vest and become unrestricted four years after the date of grant. Participants are entitled to cash dividends on such awarded shares and units, but the sale or transfer of these shares and units is restricted during the vesting period. Participants holding restricted stock, but not restricted stock units, are entitled to vote on matters submitted to holders of common stock for a vote.

Information on restricted stock unit and cash-settled share-based payment activity follows:

| | Equity Classified | | | Liability Classified | | |
|-------------------------------|---------------------------------------|---|---------------------------------------|---|--|---|
| | Share-Settled Units (Thousands) | Weighted- Average Grant-Date Fair Value | Share-Settled Units (Thousands) | Weighted- Average Grant-Date Fair Value | Cash-Settled | Weighted- Average Grant-Date Fair Value |
| | | | | | Share-Based Payment Units (Thousands) | |
| Non-vested as of May 25, 2008 | 4,996.2 | \$ 52.81 | 154.5 | \$ 52.86 | | \$ |
| Granted | 1,150.8 | 63.41 | 65.9 | 63.35 | 957.3 | 63.40 |
| Vested | (1,527.4) | 48.96 | (47.0) | 48.31 | (44.7) | 63.40 |
| Forfeited or expired | (228.6) | 57.18 | (14.6) | 59.31 | (37.7) | 63.40 |
| Non-vested as of May 31, 2009 | 4,391.0 | \$ 56.70 | 158.8 | \$ 57.97 | 874.9 | \$ 63.40 |

| | Fiscal Year | | |
|-------------------------------------|-------------|----------|----------|
| | 2009 | 2008 | 2007 |
| Number of units granted (thousands) | 2,174.0 | 1,952.2 | 1,771.2 |
| Weighted average price per unit | \$ 63.40 | \$ 58.62 | \$ 51.71 |

The total grant-date fair value of restricted stock unit and cash-settled share-based payment awards that vested during fiscal 2009 was \$79.9 million. The total grant-date fair value of restricted stock unit and cash-settled share-based payment awards that vested during fiscal 2008 was \$65.6 million.

As of May 31, 2009, unrecognized compensation costs related to non-vested stock options, restricted stock units, and cash-settled share-based payment was \$186.9 million. This cost will be recognized as a reduction of earnings over 25 months, on average.

Stock-based compensation expense related to restricted stock unit and cash-settled share-based payment awards was \$101.4 million for fiscal 2009, \$80.4 million for fiscal 2008, and \$73.1 million for fiscal 2007.

Table of Contents**NOTE 12. EARNINGS PER SHARE**

Basic and diluted EPS were calculated using the following:

| In Millions, Except Per Share Data | Fiscal Year | | |
|---|--------------------|-------------|-------------|
| | 2009 | 2008 | 2007 |
| Net earnings as reported | \$ 1,304.4 | \$ 1,294.7 | \$ 1,143.9 |
| Capital appreciation paid on Series B-1 interests in GMC (a) | | (8.0) | |
| Net earnings for basic and diluted EPS calculations | \$ 1,304.4 | \$ 1,286.7 | \$ 1,143.9 |
| Average number of common shares basic EPS | 331.9 | 333.0 | 346.5 |
| Incremental share effect from: | | | |
| Stock options (b) | 8.9 | 10.6 | 10.7 |
| Restricted stock units and other (b) | 2.7 | 2.8 | 2.0 |
| Forward purchase contract (c) | | 0.5 | 1.0 |
| Average number of common shares diluted EPS | 343.5 | 346.9 | 360.2 |
| Earnings per share basic | \$ 3.93 | \$ 3.86 | \$ 3.30 |
| Earnings per share diluted | \$ 3.80 | \$ 3.71 | \$ 3.18 |

(a) See Note 9.

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

| In Millions | Fiscal Year | | |
|--|--------------------|-------------|-------------|
| | 2009 | 2008 | 2007 |
| Anti-dilutive stock options and restricted stock units | 7.1 | 4.7 | 6.0 |

- (c) On October 15, 2007, we settled a forward purchase contract with Lehman Brothers by issuing 14.3 million shares of common stock.

NOTE 13. RETIREMENT AND POSTEMPLOYMENT BENEFITS

Defined Benefit Pension Plans

We have defined benefit pension plans covering most domestic, Canadian, and United Kingdom employees. Benefits for salaried employees are based on length of service and final average compensation. Benefits for hourly employees include various monthly amounts for each year of credited service. Our funding policy is consistent with the requirements of applicable laws. We made \$200.0 million of voluntary contributions to our principal domestic plans in fiscal 2009, and are not required to make similar contributions in fiscal 2010. Our principal domestic retirement plan covering salaried employees has a provision that any excess pension assets would vest if the plan is terminated within five years of a change in control.

Other Postretirement Benefit Plans

We also sponsor plans that provide health care benefits to the majority of our domestic and Canadian retirees. The salaried health care benefit plan is contributory, with retiree contributions based on years of service. We fund related trusts for certain employees and retirees on an annual basis. We did not make voluntary contributions to these plans in fiscal 2009.

Table of Contents**Health Care Cost Trend Rates**

Assumed health care costs trend rates are as follows:

| | Fiscal Year | |
|---|--------------------|-------------|
| | 2009 | 2008 |
| | 9.0% | |
| | and | 9.25% and |
| Health care cost trend rate for next year | 9.5% | 10.25% |
| Rate to which the cost trend rate is assumed to decline (ultimate rate) | 5.2% | 5.2% |
| Year that the rate reaches the ultimate trend rate | 2018 | 2016 |

We review our health care trend rates annually. Our review is based on data we collect about our health care claims experience and information provided by our actuaries. This information includes recent plan experience, plan design, overall industry experience and projections, and assumptions used by other similar organizations. Our initial health care cost trend rate is adjusted as necessary to remain consistent with this review, recent experiences, and short-term expectations. Our initial health care cost trend rate assumption is 9.5 percent for retirees age 65 and over and 9.0 percent for retirees under age 65. These rates are graded down annually until the ultimate trend rate of 5.2 percent is reached in 2018 for all retirees. The trend rates are applicable for calculations only if the retirees' benefits increase as a result of health care inflation. The ultimate trend rate is adjusted annually, as necessary, to approximate the current economic view on the rate of long-term inflation plus an appropriate health care cost premium. Assumed trend rates for health care costs have an important effect on the amounts reported for the other postretirement benefit plans. A one percentage point change in the health care cost trend rate would have the following effects:

| In Millions | One Percentage Point Increase | One Percentage Point Decrease |
|--|--|--|
| Effect on the aggregate of the service and interest cost components in fiscal 2010 | \$ 7.2 | \$ (6.3) |
| Effect on the other postretirement accumulated benefit obligation as of May 31, 2009 | 75.8 | (66.9) |

Postemployment Benefit Plans

Under certain circumstances, we also provide accruable benefits to former or inactive employees in the United States, Canada, and Mexico, and members of our Board of Directors, including severance and certain other benefits payable upon death. We recognize an obligation for any of these benefits that vest or accumulate with service.

Postemployment benefits that do not vest or accumulate with service (such as severance based solely on annual pay rather than years of service) are charged to expense when incurred. Our postemployment benefit plans are unfunded. We use our fiscal year end as the measurement date for all our defined benefit pension and other postretirement benefit plans.

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

| In Millions | Defined Benefit Pension Plans | | Other Postretirement Benefit Plans | | Postemployment Benefit Plans | |
|---|-------------------------------|------------|------------------------------------|------------|------------------------------|------------|
| | Fiscal Year | | Fiscal Year | | Fiscal Year | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Change in Plan Assets: | | | | | | |
| Fair value at beginning of year | \$ 4,128.7 | \$ 4,097.8 | \$ 349.6 | \$ 391.0 | | |
| Actual return on assets | (1,009.1) | 181.1 | (94.4) | 1.9 | | |
| Employer contributions | 220.2 | 14.2 | 0.1 | | | |
| Plan participant contributions | 3.1 | 3.6 | 11.0 | 10.4 | | |
| Benefits payments | (177.4) | (168.0) | (30.7) | (53.7) | | |
| Foreign currency | (7.7) | | | | | |
| Fair value at end of year | \$ 3,157.8 | \$ 4,128.7 | \$ 235.6 | \$ 349.6 | | |
| Change in Projected Benefit Obligation: | | | | | | |
| Benefit obligation at beginning of year | \$ 3,224.1 | \$ 3,257.5 | \$ 911.3 | \$ 980.9 | \$ 104.6 | \$ 95.7 |
| Service cost | 76.5 | 80.1 | 14.2 | 16.4 | 6.5 | 5.4 |
| Interest cost | 215.4 | 196.7 | 61.2 | 58.8 | 4.9 | 3.7 |
| Plan amendment | 0.3 | 1.9 | (1.3) | | 2.3 | |
| Curtailment/other | | (0.6) | | (0.3) | 8.4 | 2.3 |
| Plan participant contributions | 3.1 | 3.6 | 11.0 | 10.4 | | |
| Medicare Part D reimbursements | | | 4.7 | 4.6 | | |
| Actuarial loss (gain) | (166.8) | (147.1) | (92.0) | (100.8) | 1.6 | 11.6 |
| Benefits payments | (177.4) | (168.0) | (57.8) | (58.7) | (15.6) | (14.1) |
| Foreign currency | (7.9) | | 0.7 | | (0.2) | |
| Projected benefit obligation at end of year | \$ 3,167.3 | \$ 3,224.1 | \$ 852.0 | \$ 911.3 | \$ 112.5 | \$ 104.6 |
| Plan assets in excess of (less than) benefit obligation as of fiscal year end | \$ (9.5) | \$ 904.6 | \$ (616.4) | \$ (561.7) | \$ (112.5) | \$ (104.6) |

The accumulated benefit obligation for all defined benefit plans was \$2,885.3 million as of May 31, 2009, and \$2,914.8 million as of May 25, 2008.

Amounts recognized in accumulated other comprehensive income (loss) as of May 31, 2009, are as follows:

| In Millions | Defined Benefit Pension Plans | | Other Postretirement Benefit Plans | | Postemployment Benefit Plans | | Total | |
|-------------|-------------------------------|------|------------------------------------|------|------------------------------|------|-------------|------|
| | Fiscal Year | | Fiscal Year | | Fiscal Year | | Fiscal Year | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | | | | | | | | |

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| | | | | | | | | |
|--|--------------|------------|------------|------------|-----------|-----------|--------------|------------|
| Net actuarial loss | \$ (1,028.2) | \$ (276.8) | \$ (130.3) | \$ (115.6) | \$ (9.7) | \$ (8.0) | \$ (1,168.2) | \$ (400.4) |
| Prior service (costs) credits | (29.6) | (34.7) | 6.8 | 6.9 | (7.5) | (9.1) | (30.3) | (36.9) |
| Amounts recorded in accumulated other comprehensive loss | \$ (1,057.8) | \$ (311.5) | \$ (123.5) | \$ (108.7) | \$ (17.2) | \$ (17.1) | \$ (1,198.5) | \$ (437.3) |

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

| In Millions | Defined Benefit Pension Plans | | Other Postretirement Benefit Plans | | Postemployment Benefit Plans | |
|--------------------------------|-------------------------------|----------|------------------------------------|-------|------------------------------|-------|
| | Fiscal Year | | Fiscal Year | | Fiscal Year | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Projected benefit obligation | \$ 225.2 | \$ 219.2 | \$ | \$ | \$ | \$ |
| Accumulated benefit obligation | 194.4 | 185.0 | 852.0 | 911.3 | 112.5 | 104.6 |
| Plan assets at fair value | 15.9 | 18.9 | 235.6 | 349.6 | | |

Components of net periodic benefit (income) costs are as follows:

| In Millions | Defined Benefit Pension Plans | | | Other Postretirement Benefit Plans | | | Postemployment Benefit Plans | | |
|---|-------------------------------|-----------|-----------|------------------------------------|---------|---------|------------------------------|---------|---------|
| | Fiscal Year | | | Fiscal Year | | | Fiscal Year | | |
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| Service cost | \$ 76.5 | \$ 80.1 | \$ 73.1 | \$ 14.2 | \$ 16.4 | \$ 16.3 | \$ 6.5 | \$ 5.4 | \$ 4.8 |
| Interest cost | 215.4 | 196.7 | 185.6 | 61.2 | 58.8 | 58.3 | 4.9 | 3.7 | 3.9 |
| Expected return on plan assets | (385.8) | (360.6) | (335.2) | (30.0) | (30.3) | (27.2) | | | |
| Amortization of losses (gains) | 7.8 | 22.7 | 12.5 | 7.2 | 15.3 | 15.6 | 1.0 | (0.2) | (0.2) |
| Amortization of prior service costs (credits) | 7.4 | 7.5 | 7.8 | (1.4) | (1.4) | (1.6) | 2.2 | 2.2 | 2.2 |
| Other adjustments | | | 0.2 | | | | 8.4 | 2.3 | 19.9 |
| Settlement or curtailment losses | | 0.3 | 0.2 | | | | | | |
| Net (income) expense | \$ (78.7) | \$ (53.3) | \$ (55.8) | \$ 51.2 | \$ 58.8 | \$ 61.4 | \$ 23.0 | \$ 13.4 | \$ 30.6 |

We expect to recognize the following amounts in net periodic benefit (income) costs in fiscal 2010:

| In Millions | Defined Benefit Pension Plans | | Other Postretirement Benefit Plans | | Postemployment Benefit Plans | |
|---|-------------------------------|--------|------------------------------------|------|------------------------------|------|
| | Fiscal Year | | Fiscal Year | | Fiscal Year | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Amortization of losses | | \$ 7.0 | \$ 2.0 | | \$ 1.0 | |
| Amortization of prior service costs (credits) | | 6.9 | (1.6) | | 2.4 | |

Assumptions

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

| | Defined Benefit Pension Plans | | Other Postretirement Benefit Plans | | Postemployment Benefit Plans | |
|--|-------------------------------|------|------------------------------------|------|------------------------------|------|
| | Fiscal Year | | Fiscal Year | | Fiscal Year | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | | | | | | |

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| | | | | | | |
|--------------------------|-------|-------|-------|-------|-------|-------|
| Discount rate | 7.49% | 6.88% | 7.45% | 6.90% | 7.06% | 6.64% |
| Rate of salary increases | 4.92 | 4.93 | | | 4.93 | 4.93 |

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Weighted-average assumptions used to determine fiscal year net periodic benefit (income) costs are as follows:

| | Defined Benefit Pension Plans Fiscal Year | | | Other Postretirement Benefit Plans Fiscal Year | | | Postemployment Benefit Plans Fiscal Year | | |
|--|--|-------------|-------------|---|-------------|-------------|---|-------------|-------------|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| | Discount rate | 6.88% | 6.18% | 6.53% | 6.90% | 6.15% | 6.50% | 6.64% | 6.05% |
| Rate of salary increases | 4.93 | 4.39 | 4.39 | | | | 4.93 | 4.39 | 4.40 |
| Expected long-term rate of return on plan assets | 9.55 | 9.56 | 9.57 | 9.35 | 9.33 | 9.33 | | | |

Discount Rates

Our discount rate assumptions are determined annually as of the last day of our fiscal year for all of our defined benefit pension, other postretirement, and postemployment benefit plan obligations. Those same discount rates also are used to determine defined benefit pension, other postretirement, and postemployment benefit plan income and expense for the following fiscal year. We work with our actuaries to determine the timing and amount of expected future cash outflows to plan participants and, using the top quartile of AA-rated corporate bond yields, to develop a forward interest rate curve, including a margin to that index based on our credit risk. This forward interest rate curve is applied to our expected future cash outflows to determine our discount rate assumptions.

Expected Rate of Return on Plan Assets

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

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

| | Defined Benefit Pension Plans Fiscal Year | | Other Postretirement Benefit Plans Fiscal Year | |
|------------------------|--|-------------|---|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| | Asset category: | | | |
| United States equities | 29.5% | 29.1% | 32.6% | 32.6% |
| International equities | 19.1 | 22.9 | 18.4 | 19.1 |
| Private equities | 13.6 | 12.2 | 12.0 | 8.9 |
| Fixed income | 24.4 | 24.2 | 28.4 | 29.3 |
| Real assets | 13.4 | 11.6 | 8.6 | 10.1 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

The investment objective for our defined benefit pension and other postretirement benefit plans is to secure the benefit obligations to participants at a reasonable cost to us. Our goal is to optimize the long-term return on plan assets at a

moderate level of risk. The defined benefit pension and other postretirement portfolios are broadly diversified across asset classes. Within asset classes, the portfolios are further diversified across investment styles and investment organizations. For the defined benefit pension and other postretirement benefit plans, the long-term investment policy allocations are: 30 percent to equities in the United States; 20 percent to international equities; 10 percent to private equities; 30 percent to fixed income; and 10 percent to real assets (real estate, energy, and timber). The actual allocations to these asset classes may vary tactically around the long-term policy allocations based on relative market valuations.

Table of Contents**Contributions and Future Benefit Payments**

We do not expect to make contributions to our defined benefit, other postretirement, and postemployment benefits plans in fiscal 2010. Actual fiscal 2010 contributions could exceed our current projections, as influenced by our decision to undertake discretionary funding of our benefit trusts and future changes in regulatory requirements. Estimated benefit payments, which reflect expected future service, as appropriate, are expected to be paid from fiscal 2010-2019 as follows:

| In Millions | Defined Benefit Pension Plans | Other Postretirement Benefit Plans Gross Payments | Medicare Subsidy Receipts | Postemployment Benefit Plans |
|--------------------|--|--|--|---|
| 2010 | \$ 188.3 | \$ 55.5 | \$ 5.4 | \$ 18.6 |
| 2011 | 194.9 | 59.4 | 5.9 | 20.1 |
| 2012 | 202.2 | 62.9 | 6.4 | 20.8 |
| 2013 | 210.3 | 65.9 | 6.9 | 21.4 |
| 2014 | 219.4 | 69.3 | 7.5 | 22.0 |
| 2015-2019 | 1,258.2 | 393.4 | 47.7 | 120.5 |

Defined Contribution Plans

The General Mills Savings Plan is a defined contribution plan that covers domestic salaried and nonunion employees. It had net assets of \$1,933.1 million as of May 31, 2009, and \$2,309.9 million as of May 25, 2008. This plan is a 401(k) savings plan that includes a number of investment funds and an Employee Stock Ownership Plan (ESOP). We sponsor another savings plan for certain hourly employees with net assets of \$15.6 million as of May 31, 2009. We also sponsor defined contribution plans in many of our foreign locations. Our total recognized expense related to defined contribution plans was \$59.5 million in fiscal 2009, \$61.9 million in fiscal 2008, and \$48.3 million in fiscal 2007.

The ESOP originally purchased our common stock principally with funds borrowed from third parties and guaranteed by us. The ESOP shares are included in net shares outstanding for the purposes of calculating EPS. The ESOP's third-party debt was repaid on June 30, 2007. The ESOP's only assets are our common stock and temporary cash balances. The ESOP's share of the total defined contribution expense was \$50.6 million in fiscal 2009, \$52.3 million in fiscal 2008, and \$40.1 million in fiscal 2007. The ESOP's expense was calculated by the shares allocated method. The ESOP used our common stock to convey benefits to employees and, through increased stock ownership, to further align employee interests with those of stockholders. We matched a percentage of employee contributions to the General Mills Savings Plan with a base match plus a variable year end match that depended on annual results. Employees received our match in the form of common stock.

Our cash contribution to the ESOP was calculated so as to pay off enough debt to release sufficient shares to make our match. The ESOP used our cash contributions to the plan, plus the dividends received on the ESOP's leveraged shares, to make principal and interest payments on the ESOP's debt. As loan payments were made, shares became unencumbered by debt and were committed to be allocated. The ESOP allocated shares to individual employee accounts on the basis of the match of employee payroll savings (contributions), plus reinvested dividends received on previously allocated shares. The ESOP incurred net interest of less than \$1.0 million in fiscal 2007. The ESOP used dividends of \$2.5 million in fiscal 2007, along with our contributions of less than \$1.0 million in fiscal 2007, to make interest and principal payments.

The number of shares of our common stock allocated to participants in the ESOP was 5.6 million as of May 31, 2009, and 5.2 million as of May 25, 2008.

Table of Contents**NOTE 14. INCOME TAXES**

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

| In Millions | Fiscal Year | | |
|---|--------------------|-------------|-------------|
| | 2009 | 2008 | 2007 |
| Earnings before income taxes and after-tax earnings from joint ventures: | | | |
| United States | \$ 1,710.3 | \$ 1,624.5 | \$ 1,453.8 |
| Foreign | 222.6 | 181.6 | 177.5 |
| Total earnings before income taxes and after-tax earnings from joint ventures | \$ 1,932.9 | \$ 1,806.1 | \$ 1,631.3 |
| Income taxes: | | | |
| Currently payable: | | | |
| Federal | \$ 457.8 | \$ 447.7 | \$ 447.7 |
| State and local | 37.3 | 52.9 | 44.4 |
| Foreign | 9.5 | 23.5 | 42.0 |
| Total current | 504.6 | 524.1 | 534.1 |
| Deferred: | | | |
| Federal | 155.7 | 65.9 | 27.9 |
| State and local | 36.3 | 24.2 | 9.1 |
| Foreign | 23.8 | 8.0 | (11.0) |
| Total deferred | 215.8 | 98.1 | 26.0 |
| Total income taxes | \$ 720.4 | \$ 622.2 | \$ 560.1 |

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

| | Fiscal Year | | |
|---|--------------------|-------------|-------------|
| | 2009 | 2008 | 2007 |
| United States statutory rate | 35.0% | 35.0% | 35.0% |
| State and local income taxes, net of federal tax benefits | 2.9 | 3.5 | 2.6 |
| Foreign rate differences | (2.4) | (1.2) | (2.7) |
| Federal court decisions, including interest | 2.7 | (1.7) | |
| Domestic manufacturing deduction | (1.1) | (1.0) | (0.6) |
| Other, net | 0.2 | (0.2) | |
| Effective income tax rate | 37.3% | 34.4% | 34.3% |

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

| In Millions | May 31, 2009 | May 25, 2008 |
|---|-------------------------|-------------------------|
| Accrued liabilities | \$ 160.0 | \$ 143.4 |
| Restructuring, impairment, and other exit charges | 0.4 | 2.1 |
| Compensation and employee benefits | 559.9 | 526.3 |
| Unrealized hedge losses | 18.4 | 23.8 |
| Unrealized losses | 221.7 | 205.4 |
| Capital losses | 165.7 | 219.5 |
| Net operating losses | 94.6 | 93.1 |
| Other | 95.4 | 99.2 |
| | | |
| Gross deferred tax assets | 1,316.1 | 1,312.8 |
| Valuation allowance | 440.4 | 521.5 |
| | | |
| Net deferred tax assets | 875.7 | 791.3 |
| | | |
| Brands | 1,286.6 | 1,279.1 |
| Depreciation | 308.1 | 271.9 |
| Prepaid pension asset | 81.3 | 430.3 |
| Intangible assets | 102.2 | 85.8 |
| Tax lease transactions | 72.6 | 74.0 |
| Other | 174.6 | 133.2 |
| | | |
| Gross deferred tax liabilities | 2,025.4 | 2,274.3 |
| | | |
| Net deferred tax liability | \$ 1,149.7 | \$ 1,483.0 |

We have established a valuation allowance against certain of the categories of deferred tax assets described above as current evidence does not suggest we will realize sufficient taxable income of the appropriate character (e.g., ordinary income versus capital gain income) within the carry forward period to allow us to realize these deferred tax benefits. Of the total valuation allowance of \$440.4 million, \$169.7 million relates to a deferred tax asset for losses recorded as part of the Pillsbury acquisition. Of the remaining valuation allowance, \$165.7 million relates to capital loss carryforwards and \$94.6 million relates to state and foreign operating loss carryforwards. In the future, if tax benefits are realized related to the valuation allowances, the reduction in the valuation allowance will generally reduce tax expense. As of May 31, 2009, we believe it is more likely than not that the remainder of our deferred tax asset is realizable.

The carryforward periods on our foreign loss carryforwards are as follows: \$59.9 million do not expire; \$9.9 million expire between fiscal 2010 and fiscal 2011; \$13.6 million expire between fiscal 2012 and fiscal 2019; and \$2.6 million expire in fiscal 2020.

We have not recognized a deferred tax liability for unremitted earnings of \$2.1 billion from our foreign operations because our subsidiaries have invested or will invest the undistributed earnings indefinitely, or the earnings will be remitted in a tax-free liquidation. It is impractical for us to determine the amount of unrecognized deferred tax liabilities on these indefinitely reinvested earnings. Deferred taxes are recorded for earnings of our foreign operations when we determine that such earnings are no longer indefinitely reinvested.

Annually we file more than 350 income tax returns in approximately 100 global taxing jurisdictions. A number of years may elapse before an uncertain tax position is audited and finally resolved. While it is often difficult to predict

the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our liabilities for income taxes reflect the most likely outcome. We adjust these liabilities, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular position would usually require the use of cash.

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The number of years with open tax audits varies depending on the tax jurisdiction. Our major taxing jurisdictions include the United States (federal and state) and Canada. We are no longer subject to United States federal examinations by the IRS for fiscal years before 2002.

The IRS has concluded its field examination of our 2006 and prior federal tax years, which resulted in payments of \$17.6 million in fiscal 2009 and \$56.5 million in fiscal 2008 to cover the additional U.S. income tax liability plus interest related to adjustments during these audit cycles. The IRS also proposed additional adjustments for the fiscal 2002 to 2006 audit cycles related to the amount of capital loss and depreciation and amortization we reported as a result of our sale of minority interests in our GMC subsidiary. The IRS has proposed adjustments that effectively eliminate most of the tax benefits associated with this transaction. We believe we have meritorious defenses and are vigorously defending our positions. We have determined that a portion of this matter should be included as a tax liability and is accordingly included in our total liabilities for uncertain tax positions. We have appealed the results of the IRS field examinations to the IRS Appeals Division. The IRS initiated its audit of our fiscal 2007 and 2008 tax years during fiscal 2009.

In the third quarter of fiscal 2008, we recorded an income tax benefit of \$30.7 million as a result of a favorable U.S. district court decision on an uncertain tax matter. In the third quarter of fiscal 2009, the U.S. Court of Appeals for the Eighth Circuit issued an opinion reversing the district court decision. As a result, we recorded \$52.6 million (including interest) of income tax expense related to the reversal of cumulative income tax benefits from this uncertain tax matter recognized in fiscal years 1992 through 2008. We are currently evaluating our options for appeal. If the appellate court decision is not overturned, we would expect to make cash tax and interest payments of approximately \$31.7 million in connection with this matter.

Various tax examinations by United States state taxing authorities could be conducted for any open tax year, which vary by jurisdiction, but are generally from 3 to 5 years. Currently, several state examinations are in progress. The Canada Revenue Agency is conducting an audit of our income tax returns in Canada for fiscal years 2003 (which is our earliest tax year still open for examination) through 2005. We do not anticipate that any United States state tax or Canadian tax adjustments will have a significant impact on our financial position or results of operations.

We apply a more-likely-than-not threshold to the recognition and derecognition of uncertain tax positions.

Accordingly we recognize the amount of tax benefit that has a greater than 50 percent likelihood of being ultimately realized upon settlement. Future changes in judgment related to the expected ultimate resolution of uncertain tax positions will affect earnings in the quarter of such change. Prior to fiscal 2008, our policy was to establish liabilities that reflected the probable outcome of known tax contingencies. The effects of final resolution, if any, were recognized as changes to the effective income tax rate in the period of resolution.

As a result of our fiscal 2008 adoption of a new accounting pronouncement regarding the accounting for income taxes, we recorded a \$218.1 million reduction to accrued tax liabilities, a \$151.9 million reduction to goodwill, a \$57.8 million increase to additional paid in capital, and an \$8.4 million increase to retained earnings.

The following table sets forth changes in our total gross unrecognized tax benefit liabilities, excluding accrued interest, for fiscal 2009. Approximately \$211.4 million of this total represents the amount that, if recognized, would affect our effective income tax rate in future periods. This amount differs from the gross unrecognized tax benefits presented in the table because certain of the liabilities below would impact deferred taxes if recognized or are the result of stock compensation items impacting additional paid-in capital. We also would record a decrease in U.S. federal income taxes upon recognition of the state tax benefits included therein.

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| In Millions | Fiscal Year | |
|---------------------------------------|--------------------|-------------|
| | 2009 | 2008 |
| Balance, beginning of year | \$ 534.6 | \$ 464.9 |
| Tax position related to fiscal 2008: | | |
| Additions | 66.8 | 69.6 |
| Tax positions related to prior years: | | |
| Additions | 48.9 | 54.7 |
| Reductions | (63.7) | (36.0) |
| Settlements | (13.0) | |
| Lapses in statutes of limitations | (3.5) | (18.6) |
| Balance, end of year | \$ 570.1 | \$ 534.6 |

As of May 31, 2009, we have classified approximately \$107.8 million of the unrecognized tax benefits as a current liability as we expect to pay these amounts within the next 12 months. The remaining amount of our unrecognized tax liability was classified in other liabilities.

We report accrued interest and penalties related to unrecognized tax benefits in income tax expense. For fiscal 2009, we recognized a net \$31.6 million of tax-related net interest and penalties, and had \$149.7 million of accrued interest and penalties as of May 31, 2009.

NOTE 15. LEASES AND OTHER COMMITMENTS

An analysis of rent expense by type of property for operating leases follows:

| In Millions | Fiscal Year | | |
|--------------------|--------------------|-------------|-------------|
| | 2009 | 2008 | 2007 |
| Warehouse space | \$ 51.4 | \$ 49.9 | \$ 46.6 |
| Equipment | 39.1 | 28.6 | 26.7 |
| Other | 49.5 | 43.2 | 33.8 |
| Total rent expense | \$ 140.0 | \$ 121.7 | \$ 107.1 |

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

Noncancelable future lease commitments are:

| In Millions | Operating Leases | Capital Leases |
|--|-------------------------|-----------------------|
| 2010 | \$ 87.6 | \$ 5.0 |
| 2011 | 71.2 | 3.5 |
| 2012 | 60.6 | 3.1 |
| 2013 | 44.5 | 3.1 |
| 2014 | 30.5 | 1.2 |
| After 2014 | 56.9 | |
| Total noncancelable future lease commitments | \$ 351.3 | 15.9 |

| | |
|---|---------|
| Less: interest | (2.0) |
| Present value of obligations under capital leases | \$ 13.9 |

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These future lease commitments will be partially offset by estimated future sublease receipts of \$18 million. Depreciation on capital leases is recorded as depreciation expense in our results of operations.

As of May 31, 2009, we have issued guarantees and comfort letters of \$653.6 million for the debt and other obligations of consolidated subsidiaries, and guarantees and comfort letters of \$282.4 million for the debt and other obligations of non-consolidated affiliates, mainly CPW. In addition, off-balance sheet arrangements are generally limited to the future payments under non-cancelable operating leases, which totaled \$351.3 million as of May 31, 2009.

We are involved in various claims, including environmental matters, arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters, either individually or in aggregate, will not have a material adverse effect on our financial position or results of operations.

NOTE 16. BUSINESS SEGMENT AND GEOGRAPHIC INFORMATION

We operate in the consumer foods industry. We have three operating segments by type of customer and geographic region as follows: U.S. Retail, 68.4 percent of our fiscal 2009 consolidated net sales; International, 17.6 percent of our fiscal 2009 consolidated net sales; and Bakeries and Foodservice, 14.0 percent of our fiscal 2009 consolidated net sales.

Our U.S. Retail segment reflects business with a wide variety of grocery stores, mass merchandisers, membership stores, natural food chains, and drug, dollar and discount chains operating throughout the United States. Our major product categories in this business segment are ready-to-eat cereals, refrigerated yogurt, ready-to-serve soup, dry dinners, shelf stable and frozen vegetables, 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 soup, granola bars, and cereal.

In Canada, our major product categories are ready-to-eat cereals, shelf stable and frozen vegetables, dry dinners, refrigerated and frozen dough products, dessert and baking mixes, frozen pizza snacks, and grain, fruit and savory snacks. In markets outside North America, our product categories include super-premium ice cream, grain snacks, shelf stable and frozen vegetables, dough products, and dry dinners. Our International 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. These international businesses are managed through 34 sales and marketing offices.

In our Bakeries and Foodservice segment we sell branded ready-to-eat cereals, snacks, dinner and side dish products, refrigerated and soft-serve frozen yogurt, frozen dough products, branded baking mixes, and custom food items. Our customers include foodservice distributors and operators, convenience stores, vending machine operators, quick service and other restaurant operators, and business and school cafeterias in the United States and Canada. In addition, we market mixes and unbaked and fully baked frozen dough products throughout the United States and Canada to retail, supermarket, and wholesale bakeries.

Operating profit for these segments excludes unallocated corporate items, restructuring, impairment, and other exit costs, and divestiture gains and losses. Unallocated corporate items include variances to planned corporate overhead expenses, variances to planned domestic employee benefits and incentives, all stock-based compensation costs, annual contributions to the General Mills Foundation, 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 in accordance with our policy as discussed in Note 2. 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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| In Millions | Fiscal Year | | |
|---|--------------------|-------------|-------------|
| | 2009 | 2008 | 2007 |
| Net sales: | | | |
| U.S. Retail | \$ 10,052.1 | \$ 9,072.0 | \$ 8,491.3 |
| International | 2,591.4 | 2,558.8 | 2,123.4 |
| Bakeries and Foodservice | 2,047.8 | 2,021.3 | 1,826.8 |
| Total | \$ 14,691.3 | \$ 13,652.1 | \$ 12,441.5 |
| Operating profit: | | | |
| U.S. Retail | \$ 2,208.5 | \$ 1,971.2 | \$ 1,896.6 |
| International | 261.4 | 268.9 | 215.7 |
| Bakeries and Foodservice | 171.0 | 165.4 | 147.8 |
| Total segment operating profit | 2,640.9 | 2,405.5 | 2,260.1 |
| Unallocated corporate items | 361.3 | 156.7 | 163.0 |
| Divestitures (gain), net | (84.9) | | |
| Restructuring, impairment, and other exit costs | 41.6 | 21.0 | 39.3 |
| Operating profit | \$ 2,322.9 | \$ 2,227.8 | \$ 2,057.8 |

The following table provides financial information by geographic area:

| In Millions | Fiscal Year | | |
|--------------------|--------------------|-------------|-------------|
| | 2009 | 2008 | 2007 |
| Net sales: | | | |
| United States | \$ 12,057.4 | \$ 11,036.7 | \$ 10,258.7 |
| Non-United States | 2,633.9 | 2,615.4 | 2,182.8 |
| Total | \$ 14,691.3 | \$ 13,652.1 | \$ 12,441.5 |

| In Millions | May 31, 2009 | May 25, 2008 |
|---------------------------------|-------------------------|-------------------------|
| Land, buildings, and equipment: | | |
| United States | \$ 2,555.6 | \$ 2,617.1 |
| Non-United States | 479.3 | 491.0 |
| Total | \$ 3,034.9 | \$ 3,108.1 |

NOTE 17. SUPPLEMENTAL INFORMATION

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

May 31, May 25,

| In Millions | 2009 | 2008 |
|--------------------------------------|-------------|-------------|
| Receivables: | | |
| From customers | \$ 971.2 | \$ 1,098.0 |
| Less allowance for doubtful accounts | (17.8) | (16.4) |
| Total | \$ 953.4 | \$ 1,081.6 |

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| In Millions | May 31, 2009 | May 25, 2008 |
|--|-------------------------|-------------------------|
| Inventories: | | |
| Raw materials and packaging | \$ 273.1 | \$ 265.0 |
| Finished goods | 1,096.1 | 1,012.4 |
| Grain | 126.9 | 215.2 |
| Excess of FIFO or weighted-average cost over LIFO cost (a) | (149.3) | (125.8) |
| Total | \$ 1,346.8 | \$ 1,366.8 |

(a) Inventories of \$908.3 million as of May 31, 2009, and \$806.4 million as of May 25, 2008, were valued at LIFO.

| In Millions | May 31, 2009 | May 25, 2008 |
|--|-------------------------|-------------------------|
| Prepaid expenses and other current assets: | | |
| Prepaid expenses | \$ 197.5 | \$ 193.5 |
| Accrued interest receivable, including interest rate swaps | 73.4 | 103.5 |
| Derivative receivables, primarily commodity-related | 32.0 | 78.2 |
| Other receivables | 87.6 | 105.6 |
| Current marketable securities | 23.4 | 13.3 |
| Miscellaneous | 55.4 | 16.5 |
| Total | \$ 469.3 | \$ 510.6 |

| In Millions | May 31, 2009 | May 25, 2008 |
|---|-------------------------|-------------------------|
| Land, buildings, and equipment: | | |
| Land | \$ 55.2 | \$ 61.2 |
| Buildings | 1,571.8 | 1,550.4 |
| Buildings under capital lease | 25.0 | 27.1 |
| Equipment | 4,324.0 | 4,216.4 |
| Equipment under capital lease | 27.7 | 37.6 |
| Capitalized software | 268.0 | 234.8 |
| Construction in progress | 349.2 | 343.8 |
| Total land, buildings, and equipment | 6,620.9 | 6,471.3 |
| Less accumulated depreciation | (3,586.0) | (3,363.2) |

Total \$ 3,034.9 \$ 3,108.1

| In Millions | May 31, 2009 | May 25, 2008 |
|---|-------------------------|-------------------------|
| Other assets: | | |
| Pension assets | \$ 195.1 | \$ 1,110.1 |
| Investments in and advances to joint ventures | 283.3 | 278.6 |
| Life insurance | 89.8 | 92.3 |
| Non-current derivative receivables | 189.8 | 126.2 |
| Miscellaneous | 137.0 | 143.0 |
| Total | \$ 895.0 | \$ 1,750.2 |

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| In Millions | May 31, 2009 | May 25, 2008 |
|---------------------------------------|-------------------------|-------------------------|
| Other current liabilities: | | |
| Accrued payroll | \$ 338.2 | \$ 364.1 |
| Accrued interest | 182.1 | 146.8 |
| Accrued trade and consumer promotions | 473.5 | 446.0 |
| Accrued taxes | 168.0 | 66.9 |
| Derivatives payable | 25.8 | 8.1 |
| Accrued customer advances | 19.3 | 17.3 |
| Miscellaneous | 275.0 | 190.6 |
| Total | \$ 1,481.9 | \$ 1,239.8 |

| In Millions | May 31, 2009 | May 25, 2008 |
|--|-------------------------|-------------------------|
| Other noncurrent liabilities: | | |
| Interest rate swaps | \$ 258.7 | \$ 218.4 |
| Accrued compensation and benefits, including obligations for underfunded other postretirement and postemployment benefit plans | 1,051.0 | 1,000.6 |
| Accrued income taxes | 541.5 | 628.6 |
| Miscellaneous | 80.5 | 76.3 |
| Total | \$ 1,931.7 | \$ 1,923.9 |

Certain Consolidated Statements of Earnings amounts are as follows:

| In Millions | Fiscal Year | | |
|--|--------------------|-------------|-------------|
| | 2009 | 2008 | 2007 |
| Depreciation and amortization | \$ 453.6 | \$ 459.2 | \$ 417.8 |
| Research and development expense | 208.2 | 204.7 | 191.1 |
| Advertising and media expense (including production and communication costs) | 732.1 | 587.2 | 491.4 |

The components of interest, net are as follows:

| Expense (Income), in Millions | Fiscal Year | | |
|---|--------------------|-------------|-------------|
| | 2009 | 2008 | 2007 |
| Interest expense | \$ 409.5 | \$ 432.0 | \$ 396.6 |
| Distributions paid on preferred stock and interests in subsidiaries | 7.2 | 22.0 | 63.8 |
| Capitalized interest | (5.1) | (5.0) | (2.5) |
| Interest income | (21.6) | (27.3) | (31.4) |

| | | | |
|---------------|----------|----------|----------|
| Interest, net | \$ 390.0 | \$ 421.7 | \$ 426.5 |
|---------------|----------|----------|----------|

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Certain Consolidated Statements of Cash Flows amounts are as follows:

| In Millions | Fiscal Year | | |
|----------------------------|-------------|----------|----------|
| | 2009 | 2008 | 2007 |
| Cash interest payments | \$ 292.8 | \$ 436.6 | \$ 406.8 |
| Cash paid for income taxes | 395.3 | 444.4 | 368.8 |

In fiscal 2009, we acquired Humm Foods by issuing 0.9 million shares of our common stock to its shareholders, with a value of \$55.0 million, as consideration. This acquisition is treated as a non-cash transaction in our Consolidated Statement of Cash Flows.

NOTE 18. QUARTERLY DATA (UNAUDITED)

Summarized quarterly data for fiscal 2009 and fiscal 2008 follows:

| In Millions, Except Per Share Amounts | First Quarter | | Second Quarter | | Third Quarter | | Fourth Quarter | |
|---------------------------------------|---------------|------------|----------------|------------|---------------|------------|----------------|------------|
| | Fiscal Year | | Fiscal Year | | Fiscal Year | | Fiscal Year | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Net sales | \$ 3,497.3 | \$ 3,072.0 | \$ 4,010.8 | \$ 3,703.4 | \$ 3,537.4 | \$ 3,405.6 | \$ 3,645.7 | \$ 3,471.1 |
| Gross margin | 1,191.7 | 1,156.2 | 1,219.6 | 1,331.2 | 1,277.5 | 1,354.2 | 1,544.6 | 1,032.2 |
| Net earnings (a) | 278.5 | 288.9 | 378.2 | 390.5 | 288.9 | 430.1 | 358.8 | 185.2 |
| EPS: | | | | | | | | |
| Basic | \$ 0.83 | \$ 0.85 | \$ 1.14 | \$ 1.19 | \$ 0.88 | \$ 1.28 | \$ 1.09 | \$ 0.55 |
| Diluted | \$ 0.79 | \$ 0.81 | \$ 1.09 | \$ 1.14 | \$ 0.85 | \$ 1.23 | \$ 1.07 | \$ 0.53 |
| Dividends per share | \$ 0.43 | \$ 0.39 | \$ 0.43 | \$ 0.39 | \$ 0.43 | \$ 0.39 | \$ 0.43 | \$ 0.40 |
| Market price of common stock: | | | | | | | | |
| High | \$ 67.70 | \$ 61.52 | \$ 70.16 | \$ 59.67 | \$ 64.78 | \$ 61.40 | \$ 55.50 | \$ 62.50 |
| Low | \$ 59.87 | \$ 54.17 | \$ 58.11 | \$ 55.52 | \$ 55.04 | \$ 51.43 | \$ 47.22 | \$ 54.50 |

- (a) Net earnings in the fourth quarter of fiscal 2009 include a pre-tax loss of \$5.6 million from the sale of our bread concentrates product line and a pre-tax loss of \$38.3 million from the sale of a portion of the assets of our frozen unbaked bread dough product line. In addition, we

recorded a pre-tax charge of \$16.8 million for the restructuring of our business in Brazil, and \$8.3 million for the discontinuation of our *Perfect Portions* product line at our Murfreesboro, Tennessee plant. See Notes 3 and 4.

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AOCI. Accumulated Other Comprehensive Income.

Average total capital. Used for calculating return on average total capital. Notes payable, long-term debt including current portion, minority interests, and stockholders' equity, excluding accumulated other comprehensive income (loss) and certain after-tax earnings adjustments. The average is calculated using the average of the beginning of fiscal year and end of fiscal year Consolidated Balance Sheet amounts for these line items.

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

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

Derivatives. Financial instruments such as futures, swaps, options, and forward contracts that we use to manage our risk arising from changes in commodity prices, interest rates, foreign exchange rates, and stock prices.

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

Generally Accepted Accounting Principles (GAAP). Guidelines, procedures, and practices that we are required to use in recording and reporting accounting information in our audited financial statements.

Goodwill. The difference between the purchase price of acquired companies and the related fair values of net assets acquired.

Gross margin. Net sales less cost of sales.

Hedge accounting. Accounting for qualifying hedges that allows changes in a hedging instrument's fair value to offset corresponding changes in the hedged item in the same reporting period. Hedge accounting is permitted for certain hedging instruments and hedged items only if the hedging relationship is highly effective, and only prospectively from the date a hedging relationship is formally documented.

Interest bearing instruments. Notes payable, long-term debt, including current portion, minority interests, cash and cash equivalents, and certain interest bearing investments classified within prepaid expenses and other current assets and other assets.

LIBOR. London Interbank Offered Rate.

Mark-to-market. The act of determining a value for financial instruments, commodity contracts, and related assets or liabilities based on the current market price for that item.

Minority interests. Interests of subsidiaries held by third parties.

Net mark-to-market valuation of certain commodity positions. Realized and unrealized gains and losses on derivative contracts that will be allocated to segment operating profit when the exposure we are hedging affects earnings.

Net price realization. The impact of list and promoted price changes, net of trade and other price promotion costs.

Notional principal amount. The principal amount on which fixed-rate or floating-rate interest payments are calculated.

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

OCI. Other Comprehensive Income.

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

Return on average total capital. Net earnings, excluding after-tax net interest, and adjusted for items affecting year-over-year comparability, divided by average total capital.

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

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

Total debt. Notes payable and long-term debt, including current portion.

Transaction gains and losses. The impact on our Consolidated Financial Statements of foreign exchange rate changes arising from specific transactions.

Translation adjustments. The impact of the conversion of our foreign affiliates' financial statements to U.S. dollars for the purpose of consolidating our financial statements.

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

ITEM 9 Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

ITEM 9A Controls and Procedures

We, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the 1934 Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of May 31, 2009, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the 1934 Act is (1) recorded, processed, summarized, and reported within the time periods specified in applicable rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the 1934 Act) during our fiscal quarter ended May 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of General Mills, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the 1934 Act. The Company's internal control system was designed to provide reasonable assurance to our management and the Board of Directors regarding the preparation and fair presentation of published financial statements. Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of May 31, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework.

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Based on our assessment using the criteria set forth by COSO in Internal Control – Integrated Framework, management concluded that our internal control over financial reporting was effective as of May 31, 2009. KPMG LLP, our independent registered public accounting firm, has issued a report on the effectiveness of the Company’s internal control over financial reporting.

/s/ K. J. Powell

/s/ D. L. Mulligan

K. J. Powell
Chairman of the Board and Chief
Executive Officer
July 13, 2009

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

Our registered public accounting firm’s attestation report on our internal control over financial reporting is included in the Report of Independent Registered Public Accounting Firm in Item 8 of this report.

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ITEM 9B Other Information

None.

PART III

ITEM 10 Directors, Executive Officers and Corporate Governance

The information contained in the sections entitled Election of Directors and Section 16(a) Beneficial Ownership Reporting Compliance contained in our definitive Proxy Statement for our 2009 Annual Meeting of Stockholders is incorporated herein by reference.

Information regarding our executive officers is set forth in Item 1 of this report.

The information regarding our Audit Committee, including the members of the Audit Committee and audit committee financial experts, set forth in the section entitled Board Committees and Their Functions contained in our definitive Proxy Statement for our 2009 Annual Meeting of Stockholders is incorporated herein by reference.

We have adopted a Code of Conduct applicable to all employees, including our principal executive officer, principal financial officer, and principal accounting officer. A copy of the Code of Conduct is available on our website at www.generalmills.com. We intend to post on our website any amendments to our Code of Conduct and any waivers from our Code of Conduct for principal officers.

ITEM 11 Executive Compensation

The information contained in the sections entitled Executive Compensation and Director Compensation and Benefits in our definitive Proxy Statement for our 2009 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information contained in the sections entitled Ownership of General Mills Common Stock by Directors, Officers and Certain Beneficial Owners and Equity Compensation Plan Information in our definitive Proxy Statement for our 2009 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 13 Certain Relationships and Related Transactions, and Director Independence

The information set forth in the sections entitled Board Independence and Composition and Certain Relationships and Related Transactions contained in our definitive Proxy Statement for our 2009 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 14 Principal Accounting Fees and Services

The information contained in the section entitled Independent Registered Public Accounting Firm Fees in our definitive Proxy Statement for our 2009 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV

ITEM 15 Exhibits, Financial Statement Schedules

1. Financial Statements:

The following financial statements are included in Item 8 of this report:

Consolidated Statements of Earnings for the fiscal years ended May 31, 2009, May 25, 2008, and May 27, 2007.

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Consolidated Balance Sheets as of May 31, 2009, and May 25, 2008.

Consolidated Statements of Cash Flows for the fiscal years ended May 31, 2009, May 25, 2008, and May 27, 2007.

Consolidated Statements of Stockholders' Equity and Comprehensive Income for the fiscal years ended May 31, 2009, May 25, 2008, and May 27, 2007.

Notes to Consolidated Financial Statements.

Report of Management Responsibilities.

Report of Independent Registered Public Accounting Firm.

2. Financial Statement Schedule:

For the fiscal years ended May 31, 2009, May 25, 2008, and May 27, 2007:

II Valuation and Qualifying Accounts

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Table of Contents**3. Exhibits:**

| Exhibit No. | Description |
|--------------------|---|
| 3.1 | Restated Certificate of Incorporation of the Registrant. |
| 3.2 | By-laws of the Registrant (incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed December 11, 2008). |
| 4.1 | Indenture, dated as of February 1, 1996, between the Registrant and U.S. Bank National Association (f/k/a First Trust of Illinois, National Association) (incorporated herein by reference to Exhibit 4.1 to Registrant's Registration Statement on Form S-3 filed February 6, 1996 (File no. 333-00745)). |
| 4.2 | First Supplemental Indenture, dated as of May 18, 2009, between the Registrant and U.S. Bank National Association. |
| 4.3 | Fifth Amended and Restated Limited Liability Company Agreement of General Mills Cereals, LLC, dated as of May 25, 2008, by and among GM Cereals Operations, Inc., RBDB, Inc., General Mills Sales, Inc., and GM Cereals Holdings, Inc. (incorporated herein by reference to Exhibit 4.3 to Registrant's Annual Report on Form 10-K for the fiscal year ended May 25, 2008). |
| 10.1* | 1996 Compensation Plan for Non-Employee Directors (incorporated herein by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended February 22, 2009). |
| 10.2* | 1998 Employee Stock Plan (incorporated herein by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended February 22, 2009). |
| 10.3* | 1998 Senior Management Stock Plan (incorporated herein by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended February 22, 2009). |
| 10.4* | 2001 Compensation Plan for Non-Employee Directors (incorporated herein by reference to Exhibit 10.21 to Registrant's Annual Report on Form 10-K for the fiscal year ended May 27, 2007). |
| 10.5* | Amendment to 2001 Compensation Plan for Non-Employee Directors (incorporated herein by reference to Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended February 22, 2009). |
| 10.6* | 2003 Stock Compensation Plan (incorporated herein by reference to Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended February 22, 2009). |
| 10.7* | 2005 Stock Compensation Plan (incorporated herein by reference to Exhibit 10.6 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended February 22, 2009). |
| 10.8* | 2006 Compensation Plan for Non-Employee Directors (incorporated herein by reference to Exhibit 10.7 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended February 22, 2009). |

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- 10.9* 2007 Stock Compensation Plan (incorporated herein by reference to Exhibit 10.8 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended February 22, 2009).
- 10.10* Executive Incentive Plan (incorporated herein by reference to Exhibit 10.9 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended February 22, 2009).
- 10.11* Separation Pay and Benefits Program for Officers (incorporated herein by reference to Exhibit 10.10 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended February 22, 2009).
- 10.12* Supplemental Savings Plan (incorporated herein by reference to Exhibit 10.11 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended February 22, 2009).
- 10.13* Supplemental Retirement Plan (Grandfathered) (incorporated herein by reference to Exhibit 10.12 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended February 22, 2009).
- 10.14* 2005 Supplemental Retirement Plan (incorporated herein by reference to Exhibit 10.13 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended February 22, 2009).

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| Exhibit No. | Description |
|--------------------|---|
| 10.15* | Deferred Compensation Plan (Grandfathered) (incorporated herein by reference to Exhibit 10.14 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended February 22, 2009). |
| 10.16* | 2005 Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.15 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended February 22, 2009). |
| 10.17* | Executive Medical Plan (incorporated herein by reference to Exhibit 10.16 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended February 22, 2009). |
| 10.18* | Executive Survivor Income Plan (incorporated herein by reference to Exhibit 10.6 to Registrant's Annual Report on Form 10-K for the fiscal year ended May 29, 2005). |
| 10.19* | Aircraft Time Sharing Agreement, dated December 12, 2007, between General Mills Sales, Inc. and Kendall J. Powell (incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed December 14, 2007). |
| 10.20* | Supplemental Benefits Trust Agreement, amended and restated as of September 26, 1988, between the Registrant and Norwest Bank Minnesota, N.A. (incorporated herein by reference to Exhibit 10.12 to Registrant's Annual Report on Form 10-K for the fiscal year ended May 29, 2005). |
| 10.21* | Supplemental Benefits Trust Agreement, dated as of September 26, 1988, between the Registrant and Norwest Bank Minnesota, N.A. (incorporated herein by reference to Exhibit 10.13 to Registrant's Annual Report on Form 10-K for the fiscal year ended May 29, 2005). |
| 10.22 | Agreements, dated November 29, 1989, by and between the Registrant and Nestle S.A. (incorporated herein by reference to Exhibit 10.15 to Registrant's Annual Report on Form 10-K for the fiscal year ended May 28, 2000). |
| 10.23 | Protocol and Addendum No. 1 to Protocol of Cereal Partners Worldwide, dated November 21, 1989, between the Registrant and Nestle S.A. (incorporated herein by reference to Exhibit 10.16 to Registrant's Annual Report on Form 10-K for the fiscal year ended May 27, 2001). |
| 10.24 | Addendum No. 2 to the Protocol of Cereal Partners Worldwide, dated March 16, 1993, between the Registrant and Nestle S.A. (incorporated herein by reference to Exhibit 10.18 to Registrant's Annual Report on Form 10-K for the fiscal year ended May 30, 2004). |
| 10.25 | Addendum No. 3 to the Protocol of Cereal Partners Worldwide, effective as of March 15, 1993, between the Registrant and Nestle S.A. (incorporated herein by reference to Exhibit 10.2 to Registrant's Annual Report on Form 10-K for the fiscal year ended May 28, 2000). |
| 10.26+ | Addenda Nos. 4 and 5 to the Protocol of Cereal Partners Worldwide between the Registrant and Nestle S.A. |
| 10.27 | Five-Year Credit Agreement, dated as of October 21, 2005, among the Registrant, the several financial institutions from time to time party to the agreement, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated herein by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed October 25, 2005). |

- 10.28 Amendment No. 1, dated as of October 9, 2007, to Five-Year Credit Agreement, dated as of October 21, 2005, among the Registrant, the several financial institutions from time to time party to the agreement, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed October 15, 2007).
- 10.29 Five-Year Credit Agreement, dated as of October 9, 2007, among the Registrant, the several financial institutions from time to time party to the agreement, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated herein by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed October 15, 2007).
- 10.30 Amendment to Credit Agreements, dated as of October 31, 2007, among the Registrant, various financial institutions, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated herein by reference to Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended November 25, 2007).
- 10.31 Yoplait Manufacturing and Distribution License Agreement, dated September 9, 1977, between the Registrant and Société de Développements et d'Innovations des Marchés Agricoles et Alimentaires, as amended (incorporated herein by reference to Exhibit 10.32 to Registrant's Annual Report on Form 10-K for the fiscal year ended May 27, 2007).

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| Exhibit No. | Description |
|--|--|
| 10.32 | Ninth Amendment to the Yoplait Manufacturing and Distribution License Agreement, dated December 3, 2007, between SODIMA and the Registrant (incorporated herein by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended February 24, 2008). |
| 10.33 | Tenth Amendment to the Yoplait Manufacturing and Distribution License Agreement, dated January 12, 2009, between SODIMA and the Registrant (incorporated herein by reference to Exhibit 10.17 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended February 22, 2009). |
| 12.1 | Computation of Ratio of Earnings to Fixed Charges. |
| 21.1 | List of Subsidiaries of the Registrant. |
| 23.1 | Consent of Independent Registered Public Accounting Firm. |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| * Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 15 of Form 10-K. | |
| + Confidential information has been omitted from the exhibit and filed separately, accompanied by a confidential treatment request, with the SEC pursuant to Rule 24b-2 of | |

the Securities
Exchange Act
of 1934.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K, copies of certain instruments defining the rights of holders of our long-term debt are not filed and, in lieu thereof, we agree to furnish copies to the SEC upon request.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GENERAL MILLS, INC.

Dated: July 13, 2009

By: /s/ Roderick A. Palmore
 Name: Roderick A. Palmore
 Title: Executive Vice President, General Counsel and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|--------------------------|--|---------------|
| /s/ Kendall J. Powell | Chairman of the Board, Chief Executive Officer | July 13, 2009 |
| Kendall J. Powell | and Director (Principal Executive Officer) | |
| /s/ Donal L. Mulligan | Executive Vice President and Chief Financial Officer (Principal Financial Officer) | July 13, 2009 |
| Donal L. Mulligan | | |
| /s/ Richard O. Lund | Vice President, Controller (Principal Accounting Officer) | July 13, 2009 |
| Richard O. Lund | | |
| /s/ Bradbury H. Anderson | Director | July 4, 2009 |
| Bradbury H. Anderson | | |
| /s/ R. Kerry Clark | Director | July 2, 2009 |
| R. Kerry Clark | | |
| /s/ Paul Danos | Director | July 2, 2009 |
| Paul Danos | | |
| /s/ William T. Esrey | Director | July 3, 2009 |
| William T. Esrey | | |
| /s/ Raymond V. Gilmartin | Director | July 7, 2009 |
| Raymond V. Gilmartin | | |

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| | | |
|------------------------------|----------|--------------|
| /s/ Judith Richards Hope | Director | July 5, 2009 |
| Judith Richards Hope | | |
| /s/ Heidi G. Miller | Director | July 1, 2009 |
| Heidi G. Miller | | |
| /s/ Hilda Ochoa-Brillembourg | Director | July 1, 2009 |
| Hilda Ochoa-Brillembourg | | |
| /s/ Steve Odland | Director | July 2, 2009 |
| Steve Odland | | |
| /s/ Lois E. Quam | Director | July 3, 2009 |
| Lois E. Quam | | |
| /s/ Michael D. Rose | Director | July 2, 2009 |
| Michael D. Rose | | |
| /s/ Robert L. Ryan | Director | July 5, 2009 |
| Robert L. Ryan | | |
| /s/ Dorothy A. Terrell | Director | July 4, 2009 |
| Dorothy A. Terrell | | |

Table of Contents**General Mills, Inc. and Subsidiaries
Schedule II Valuation and Qualifying Accounts**

| In Millions | 2009 | Fiscal Year 2008 | 2007 |
|--|-------------|-----------------------------|-------------|
| Allowance for doubtful accounts: | | | |
| Balance at beginning of year | \$ 16.4 | \$ 16.4 | \$ 18.0 |
| Additions charged to expense | 13.8 | 12.7 | 1.9 |
| Bad debt write-offs | (13.0) | (12.8) | (1.5) |
| Other adjustments and reclassifications | 0.6 | 0.1 | (2.0) |
| Balance at end of year | \$ 17.8 | \$ 16.4 | \$ 16.4 |
| Valuation allowance for deferred tax assets: | | | |
| Balance at beginning of year | \$ 521.5 | \$ 611.9 | \$ 857.7 |
| Additions (benefits) charged to expense and deferred tax asset | 2.0 | 8.0 | (2.8) |
| Adjustments to acquisition, translation amounts, and other | (83.1) | (98.4) | (243.0) |
| Balance at end of year | \$ 440.4 | \$ 521.5 | \$ 611.9 |
| Reserve for restructuring and other exit charges: | | | |
| Balance at beginning of year | \$ 7.9 | \$ 4.3 | \$ 14.7 |
| Additions (benefits) charged to expense | 15.8 | 20.9 | (0.9) |
| Net amounts utilized for restructuring activities | (4.9) | (17.3) | (9.5) |
| Balance at end of year | \$ 18.8 | \$ 7.9 | \$ 4.3 |
| Reserve for LIFO valuation: | | | |
| Balance at beginning of year | \$ 125.8 | \$ 78.1 | \$ 61.9 |
| Increment | 23.5 | 47.7 | 16.2 |
| Balance at end of year | \$ 149.3 | \$ 125.8 | \$ 78.1 |

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Exhibit Index

| Exhibit No. | Description |
|--------------------|--|
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| 4.2 | First Supplemental Indenture, dated as of May 18, 2009, between the Registrant and U.S. Bank National Association. |
| 10.26* | Addenda Nos. 4 and 5 to the Protocol of Cereal Partners Worldwide between the Registrant and Nestle S.A. |
| 12.1 | Computation of Ratio of Earnings to Fixed Charges. |
| 21.1 | List of Subsidiaries of the Registrant. |
| 23.1 | Consent of Independent Registered Public Accounting Firm. |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
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| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Confidential information has been omitted from the exhibit and filed separately, accompanied by a confidential treatment request, with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.