# FORM 8−K

## GENERAL MILLS INC − gis

**Filed: January 16, 2007 (period: January 16, 2007)**

Report of unscheduled material events or corporate changes.

# Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

# FORM 8−K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): January 16, 2007

## GENERAL MILLS, INC.

(Exact Name of Registrant as Specified in its Charter)

| Delaware | 1−1185 | 41−0274440 |
|---|---|---|
| (State of Incorporation) | (Commission<br>File Number) | (IRS Employer<br>Identification No.) |

| | |
|---|---|
| Number One General Mills Boulevard<br>Minneapolis, Minnesota<br>(Mail: P.O. Box 1113) | 55426<br>(Mail: 55440) |
| (Address of Principal Executive Offices) | (Zip Code) |

Registrant's telephone number, including area code: (763) 764−7600

Check the appropriate box below if the Form 8−K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a−12 under the Exchange Act (17 CFR 240.14a−12)
- ☐ Pre−commencement communications pursuant to Rule 14d−2(b) under the Exchange Act (17 CFR 240.14d−2(b))
- ☐ Pre−commencement communications pursuant to Rule 13e−4(c) under the Exchange Act (17 CFR 240.13e−4(c))

**Item 8.01** **Other Events.**

Beginning with the first quarter of our fiscal year ending May 27, 2007, we made certain changes in our reporting of financial information. We are filing this Form 8−K to (i) provide investors with reclassified historical financial information that will assist them in making comparisons with financial information for periods ended after our fiscal year ended May 28, 2006 and (ii) incorporate by reference the reclassified historical financial information into our filings with the Securities and Exchange Commission (the "SEC"). The reclassified historical financial information contained in Exhibits 99.1 and 99.2 to this Form 8−K does not represent a restatement of previously issued financial statements and has no impact on our historical consolidated net earnings or earnings per share.

We made the following changes in our reporting of financial information commencing in the first quarter of fiscal 2007:

- We made a change in accounting principle to classify shipping costs associated with the distribution of finished products to our customers as cost of sales. We previously recorded these costs in selling, general and administrative expense ("SG&A"). We made this change in principle because we believe the classification of these shipping costs in cost of sales better reflects the cost of producing and distributing our products and aligns our external financial reporting with the results we use internally to evaluate segment operating performance. The impact of this change in principle was an increase to cost of sales of $474 million in fiscal 2006, $388 million in fiscal 2005, and $352 million in fiscal 2004, and a corresponding decrease to SG&A.
- We shifted sales responsibility for several customers from our Bakeries and Foodservice segment to our U.S. Retail segment. Net sales and segment operating profit for these two segments have been adjusted to report the results from shifted businesses with the appropriate segment. The impact of this shift was a decrease in net sales of our Bakeries and Foodservice segment and an increase in net sales of our U.S. Retail segment of $55 million in fiscal 2006, $60 million in fiscal 2005, and $37 million in fiscal 2004. The impact of this shift was a decrease of Bakeries and Foodservice segment operating profit and an increase of U.S. Retail segment operating profit of $22 million in fiscal 2006, $26 million in fiscal 2005, and $15 million in fiscal 2004.
- We also reclassified (i) certain trade−related costs and customer allowances as cost of sales or SG&A (previously recorded as reductions of net sales), (ii) certain liabilities, including trade and consumer promotion accruals, from accounts payable to other current liabilities, (iii) certain distributions from joint ventures as operating cash flows (previously reported as investing cash flows), and (iv) royalties from a joint venture to after−tax earnings from joint ventures (previously recorded as a reduction of SG&A). These reclassifications were not material individually or in the aggregate.

The following information (included in Exhibits 99.1 and 99.2 to this Form 8−K), originally presented in our Annual Report on Form 10−K for the fiscal year ended May 28, 2006 filed on July 27, 2006 (the "Initial Report"), as amended by Amendment No. 1 filed with the SEC on January 8, 2007 (the "Amended Report"), reflects the reclassifications described above for the periods presented therein:

- Item 6. Selected Financial Data;
- Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations;
- Item 8. Financial Statements and Supplementary Data; and
- Computation of Ratio of Earnings to Fixed Charges (Exhibit 12 to the Initial Report).

The following Notes to Consolidated Financial Statements (included in Exhibit 99.1 to this Form 8−K) changed from those previously contained in the Initial Report and the Amended Report as a result of the reclassifications described above:

- Note 1. Reclassifications;
- Note 2. Summary of Significant Accounting Policies;
- Note 15. Income Taxes;
- Note 17. Business Segment and Geographic Information;
- Note 18. Supplemental Information; and
- Note 19. Quarterly Data (Unaudited).

The information contained in Exhibits 99.1 and 99.2 to this Form 8−K does not reflect events occurring after the filing of the Initial Report (except to the extent included in the Amended Report) and does not modify or update the disclosures in the Initial Report or the Amended Report, except as specifically identified above. Significant developments with respect to those disclosures, as well as other changes in our business, have occurred and are described in filings we have made with the SEC after filing the Initial Report.

On January 8, 2007, we filed the Amended Report with the SEC after we concluded that we had a material weakness in our internal control over financial reporting as of May 28, 2006. The Amended Report included a restated Management's Report on Internal Control Over Financial Reporting, an amended management's assessment of the effectiveness of our disclosure controls and procedures and a restated Report of Independent Registered Public Accounting Firm Regarding Internal Control Over Financial Reporting. As described in the Amended Report, we believe we have remediated the material weakness by changing our policies and procedures, and the material weakness did not result in any changes to our consolidated financial statements presented in the Initial Report or to our consolidated financial statements for any other period. The historical financial information contained in Exhibits 99.1 and 99.2 to this Form 8−K is not being reclassified as a result of the material weakness identified in the Amended Report.

**Item 9.01** **Financial Statements and Exhibits.**

(c) Exhibits.

| | |
|---|---|
| 23 | Consent of Independent Registered Public Accounting Firm. |
| 99.1 | Item 6. Selected Financial Data.<br>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.<br>Item 8. Financial Statements and Supplementary Data. |
| 99.2 | Computation of Ratio of Earnings to Fixed Charges. |

## SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: January 16, 2007

GENERAL MILLS, INC.

By: /s/ Siri S. Marshall
Name: Siri S. Marshall

Title: Senior Vice President, General Counsel & Secretary

EXHIBIT INDEX

| Exhibit Number | Description |
| --- | --- |
| 23 | Consent of Independent Registered Public Accounting Firm. |
| 99.1 | Item 6. Selected Financial Data. |
| | Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. |
| | Item 8. Financial Statements and Supplementary Data. |
| 99.2 | Computation of Ratio of Earnings to Fixed Charges. |

**Exhibit 23**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors

General Mills, Inc.:

We consent to the incorporation by reference in the Registration Statements (Nos. 333−75808, 333−102675, and 333−116779) on Form S−3 and Registration Statements (Nos. 2−13460, 2−53523, 2−95574, 33−27628, 33−32059, 33−50337, 33−62729, 333−13089, 333−32509, 333−65311, 333−65313, 333−90010, 333−90012, 333−102695, 333−109050 and 333−131195) on Form S−8 of General Mills, Inc. of our report dated July 27, 2006, except for the effects of the reclassifications described in Note 1 as to which the date is January 16, 2007, relating to the consolidated balance sheets of General Mills, Inc. and subsidiaries as of May 28, 2006 and May 29, 2005 and the related consolidated statements of earnings, stockholders' equity and comprehensive income, cash flows, and the financial statement schedule for each of the fiscal years in the three−year period ended May 28, 2006 and our report dated July 27, 2006, except as to the second and third paragraphs of Management's Report on Internal Control over Financial Reporting (as restated) which are as of January 5, 2007, relating to the effectiveness of internal control over financial reporting as of May 28, 2006 which reports are included in the Form 8−K of General Mills, Inc. filed on January 16, 2007.

Our report dated July 27, 2006, except for the effects of the reclassifications described in Note 1, as to which the date is January 16, 2007, refers to a change in the method of accounting for the classification of shipping costs in the consolidated statements of earnings.

Our report dated July 27, 2006, except as to the second and third paragraphs of Management's Report on Internal Control over Financial Reporting (as restated) which are as of January 5, 2007, on management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting as of May 28, 2006, expresses our opinion that General Mills, Inc. and subsidiaries did not maintain effective internal control over financial reporting as of May 28, 2006 because of the effect of a material weakness on the achievement of the objectives of the control criteria and contains an explanatory paragraph that states that the Company's policies and procedures requiring an annual impairment assessment of goodwill and other indefinite−lived intangible assets on a combined basis were ineffective for the separate annual impairment assessment of its brand intangibles, as required by Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

/s/ KPMG LLP

Minneapolis, Minnesota

January 16, 2007

**The information contained in this Exhibit 99.1 does not reflect events occurring after the filing of the Company's Annual Report on Form 10−K for the fiscal year ended May 28, 2006 (the "Initial Report"), except to the extent included in Amendment No. 1 to the Initial Report (the "Amended Report"), and does not modify or update the disclosures in the Initial Report or the Amended Report, other than as required to reflect the reclassifications described in this Form 8−K. Significant developments with respect to those disclosures, as well as other changes in our business, have occurred and are described in filings we have made with the Securities and Exchange Commission after filing the Initial Report.**

## ITEM 6 SELECTED FINANCIAL DATA

The following table sets forth selected financial data for each of the fiscal years in the five−year period ended May 28, 2006:

| In Millions, Except per Share Data<br>Fiscal Year Ended | May 28, 2006 | May 29, 2005 | May 30, 2004 | May 25, 2003 | May 26, 2002 |
|---|---|---|---|---|---|
| **Operating data:** | | | | | |
| Net sales | $ 11,712 | $ 11,308 | $ 11,122 | $ 10,544 | $ 7,979 |
| Gross margin | 4,167 | 3,982 | 4,088 | 3,969 | 2,970 |
| Gross margin as a percentage of net sales | 36% | 35% | 37% | 38% | 37% |
| Interest, net | 399 | 455 | 508 | 547 | 416 |
| Net earnings | 1,090 | 1,240 | 1,055 | 917 | 458 |
| **Financial position at year−end:** | | | | | |
| Land, buildings and equipment | 2,997 | 3,111 | 3,197 | 3,087 | 2,842 |
| Total assets | 18,207 | 18,066 | 18,448 | 18,227 | 16,540 |
| Long−term debt, excluding current portion | 2,415 | 4,255 | 7,410 | 7,516 | 5,591 |
| Stockholders' equity | 5,772 | 5,676 | 5,248 | 4,175 | 3,576 |
| Average shares outstanding (diluted) | 379 | 409 | 413 | 395 | 342 |
| **Cash flow data:** | | | | | |
| Net cash provided by operating activities | 1,848 | 1,794 | 1,521 | 1,726 | 930 |
| Capital expenditures | 360 | 434 | 653 | 750 | 540 |
| Net cash provided (used) by investing activities | (369) | 413 | (530) | (1,113) | (3,288) |
| Net cash provided (used) by financing activities | (1,405) | (2,385) | (943) | (885) | 3,269 |
| **Per share data:** | | | | | |
| Net earnings — basic | 3.05 | 3.34 | 2.82 | 2.49 | 1.38 |
| Net earnings — diluted | 2.90 | 3.08 | 2.60 | 2.35 | 1.34 |
| Dividends | 1.34 | 1.24 | 1.10 | 1.10 | 1.10 |

Gross margin is defined as net sales less cost of sales.

Fiscal 2004 was a 53−week year; all other fiscal years were 52 weeks.

Diluted earnings per share for fiscal 2004 and 2003 have been restated for the adoption of EITF Issue 04−8.

Our acquisition of Pillsbury on October 31, 2001, significantly affected our financial condition and results of operations beginning in fiscal 2002.

## 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 differentiated food products and market these value−added products under unique brand names. We work continuously on product innovation 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 businesses are organized into three reportable segments. U.S. Retail reflects business with a wide variety of grocery stores, mass merchandisers, club stores, specialty stores and drug, dollar and discount chains operating throughout the United States. Our major product categories in this business segment are ready−to−eat cereals, meals, refrigerated and frozen dough products, baking products, snacks, yogurt and organic foods. Our International segment is made up of retail businesses outside of the United States, including a retail business in Canada that largely mirrors our U.S. Retail product mix, and foodservice businesses outside of the United States and Canada. Our Bakeries and Foodservice segment consists of products marketed throughout the United States and Canada to retail and wholesale bakeries, commercial and noncommercial foodservice distributors and operators, restaurants, and convenience stores.

Our fundamental business goal is to generate superior returns for our stockholders over the long term. In the most recent fiscal year, our total return to stockholders, including stock price appreciation and dividends, was 7.2 percent, while the S&P 500 Index returned 8.8 percent; from fiscal 2001 to 2006, our total return to stockholders averaged 6.8 percent per year while the S&P 500 Index posted a 1.8 percent average annual return over the same period.

Our long−term growth objectives are:

- low single−digit average annual growth in net sales;
- mid−single−digit average annual growth in total segment operating profit (see page 14 for our discussion of this measure not defined by generally accepted accounting principles (GAAP)); and
- high single−digit average annual growth in earnings per share (EPS).



These measures, combined with an attractive dividend yield and improvement in return on capital, drive the management of our business.

For the fiscal year ended May 28, 2006, our net sales grew 4 percent and total segment operating profit grew 5 percent, in line with our long−term goals. Diluted EPS decreased 6 percent in fiscal 2006; however, excluding the EPS effects of our convertible debentures in both fiscal years and the fiscal 2005 net benefit of gains on divestitures and debt repurchase costs, our diluted EPS grew 8 percent, in line with our long−term goal (see page 13 for our discussion of this measure not defined by GAAP). Our net cash provided by operations increased to nearly $1.8 billion in 2006, enabling us to: increase our annual dividend payments by 8 percent from fiscal 2005; continue to return cash to stockholders via share repurchases, which totaled $885 million in fiscal 2006; and repay $189 million of debt. We continued to reinvest in the long−term growth in our brands, increasing advertising by 8 percent from fiscal 2005, and we also continued to make significant capital investments to support future growth and productivity, as we spent $360 million in capital expenditures in fiscal 2006. Finally, our return on average total capital improved by 60 basis points (see page 14 for our discussion of this measure not defined by GAAP).

Results for fiscal 2006 were negatively impacted by increased fuel and commodity costs and higher advertising spending. Details of our financial results are provided in the “Fiscal 2006 Consolidated Results of Operations” section below.

As we begin fiscal 2007, we have momentum in several of our key businesses. We must sustain that momentum and restore net sales growth in two operating units that did not grow in fiscal 2006 – Big G cereals and Pillsbury USA. We plan to launch new products, achieve competitive levels of retailer merchandising activity and increase advertising in Big G cereals in fiscal 2007. In Pillsbury USA, we plan to launch new products and focus consumer marketing support to improve product mix. We expect our worldwide food business to achieve another year of good sales and operating profit growth. We also intend to deliver more growth from new products and accelerate our performance in fast−growing channels such as drug stores, dollar stores and club formats. Finally, we plan to expand our margins by focusing on realizing price increases, managing our input costs, and achieving productivity through supply chain and administrative cost−saving efforts. We expect our fiscal 2007 interest expense to be $40 million higher than in fiscal 2006, primarily due to higher interest rates. We also expect the impact of the adoption of a new accounting standard for stock−based compensation to reduce earnings by $0.11 to $0.12 per diluted share in fiscal 2007, and we expect our effective tax rate to increase 75 to 125 basis points over the fiscal 2006 effective rate of 34.5 percent.

**FISCAL 2006 CONSOLIDATED RESULTS OF OPERATIONS**

For fiscal 2006, we reported diluted EPS of $2.90, down 6 percent from $3.08 per share earned in fiscal 2005. Excluding the effects of our convertible debentures in both fiscal years and excluding the fiscal 2005 net benefit of gains on divestitures and debt repurchase costs, diluted EPS increased 8 percent from $2.75 in fiscal 2005 to $2.98 in fiscal 2006. Earnings after tax were $1,090 million in fiscal 2006, down 12 percent from $1,240 million in fiscal 2005, reflecting the net benefit of gains on divestitures and debt repurchase costs in fiscal 2005.

Net sales for fiscal 2006 grew 4 percent to $11.7 billion, driven by 2 percentage points of unit volume growth, primarily in U.S. Retail and International, and 1 percentage point of growth from pricing and product mix across many of our businesses. Promotional spending and foreign currency exchange effects were flat compared to fiscal 2005. The components of net sales growth are shown in the following table:

**Components of Net Sales Growth**

| | Fiscal 2006 vs. 2005 |
|---|---|
| Unit Volume Growth | +2 pts |
| Price/Product Mix/Foreign Currency Exchange | +1 pt |
| Trade and Coupon Promotion Expense | Flat |
| Net Sales Growth | +4% |

Table does not add due to rounding.

Cost of sales was up $219 million in fiscal 2006 versus fiscal 2005, primarily due to unit volume increases and an $89 million increase in customer freight expense, as manufacturing efficiencies largely offset cost increases due to inflation. Also, the year−over−year change in cost of sales was favorably impacted by the following costs incurred in fiscal 2005: $18 million in expense from accelerated depreciation associated with exit activities, as described below; and $5 million of product recall costs. Cost of sales as a percent of net sales decreased from 64.8 percent in fiscal 2005 to 64.4 percent in fiscal 2006.

Selling, general and administrative (SG&A) expense increased by $181 million in fiscal 2006 versus fiscal 2005. SG&A as a percent of net sales increased from 17.7 percent in fiscal 2005 to 18.6 percent in fiscal 2006. The increase in SG&A from fiscal 2005 was largely the result of a $97 million increase in domestic employee benefit costs, including incentives; a $49 million increase in consumer marketing spending; and $23 million of increases in our environmental reserves.

In fiscal 2006, we recorded restructuring and other exit costs of $30 million, consisting of $13 million related to the closure of our Swedesboro, New Jersey frozen dough plant; $6 million primarily for severance costs associated with the restructuring of our frozen dough plant in Montreal, Quebec; $4 million of restructuring costs at our Allentown, Pennsylvania frozen waffle plant, primarily related to product and production realignment; $3 million associated with an asset impairment charge in one of our plants; and $4 million primarily associated with fiscal 2005 supply chain initiatives. In fiscal 2005, we recorded restructuring and other exit costs of $84 million, consisting of $44 million of charges associated with fiscal 2005 supply chain initiatives; $30 million of charges related to relocating our frozen baked goods line from our Boston plant; $3 million of charges primarily associated with Bakeries and Foodservice severance; and $7 million of charges associated with restructuring actions prior to fiscal 2005. The fiscal 2005 supply chain initiatives were undertaken to further increase asset utilization and reduce manufacturing and sourcing costs, resulting in decisions regarding plant closures and production realignment. The actions included decisions to: close our flour milling plant in Vallejo, California; close our par−baked bread plant in Medley, Florida; relocate bread production from our Swedesboro, New Jersey plant; relocate a portion of our cereal production from Cincinnati, Ohio; close our snacks foods plant in Iowa City, Iowa; and close our dry mix production at Trenton, Ontario.

Net interest expense for fiscal 2006 totaled $399 million, lower than interest expense for fiscal 2005 of $455 million, primarily as the result of debt pay down and the maturation of interest rate swaps. Interest expense includes preferred



distributions paid on subsidiary minority interests. We have in place an amount of interest rate swaps that convert $500 million of fixed−rate debt to floating rates. Taking into account the effect of our interest rate swaps, the average interest rate on our total outstanding debt and subsidiary minority interests was 6.4 percent at May 28, 2006, compared to 5.4 percent at May 29, 2005.

The effective income tax rate was 34.5 percent for fiscal 2006, reflecting the benefit of $11 million of adjustments to deferred tax liabilities associated with our International segment's brand intangibles. In fiscal 2005 our effective income tax rate was 36.6 percent, driven primarily by the tax impacts of our fiscal 2005 divestitures.

Earnings after tax from joint ventures totaled $69 million in fiscal 2006, compared to $94 million in fiscal 2005. Earnings from joint ventures in fiscal 2005 included $28 million from our Snack Ventures Europe (SVE) joint venture with PepsiCo, Inc., which was divested on February 28, 2005. In fiscal 2006, unit volume for Cereal Partners Worldwide (CPW), our joint venture with Nestlé S.A., grew 6 percent and net sales were up 4 percent. In February 2006, CPW announced a restructuring of its manufacturing plants in the United Kingdom. Our after−tax earnings from joint ventures was reduced by $8 million for our share of the restructuring costs, primarily accelerated depreciation and severance, incurred in fiscal 2006. Our share of the remainder of CPW's restructuring costs is expected to affect our after−tax earnings from joint ventures in fiscal 2007 and fiscal 2008. Net sales for our Häagen−Dazs joint ventures in Asia declined 7 percent from fiscal 2005 due to an unseasonably cold winter and increased competitive pressure in Japan.

8th Continent, our joint venture with DuPont, achieved 14 percent net sales growth in fiscal 2006.

Average diluted shares outstanding decreased by 30 million from fiscal 2005. This was due primarily to the repurchase of a significant portion of our contingently convertible debentures in October 2005 and the completion of a consent solicitation related to the remaining convertible debentures in December 2005, actions that ended the dilutive accounting effect of these debentures in our EPS calculations. In addition, we repurchased 19 million shares of our stock during fiscal 2006, partially offset by the issuance of shares upon stock option exercises.

**FISCAL 2005 CONSOLIDATED RESULTS OF OPERATIONS**

Earnings per diluted share of $3.08 in fiscal 2005 were up 18 percent from $2.60 in fiscal 2004 primarily due to the gain from the redemption of our SVE interest and the reduction in interest expense. Earnings after tax increased to $1,240 million, up 18 percent from $1,055 million in fiscal 2004. Our cash flow in 2005 was strong, enabling us to increase our dividend payments, continue to make significant fixed asset investments to support future growth and productivity, and reduce our total debt (notes payable and long−term debt, including current portion) by $2.0 billion.

Our net sales for fiscal 2005 were $11.3 billion, an increase of 2 percent for the year compared to sales in fiscal 2004. Excluding the effect of the 53rd week in 2004, net sales increased 3 percent (see page 15 for our discussion of this measure not defined by GAAP). Net sales growth was primarily driven by 2 percentage points of unit volume growth on a 52 vs. 52−week basis, primarily in U.S. Retail and International. Pricing and product mix across many of our businesses contributed 3 percentage points of growth, however increases in promotional spending, primarily in U.S. Retail, offset that effect. Foreign currency exchange effects contributed 1 percentage point of growth. The components of net sales growth are shown in the following table.



**Components of Net Sales Growth**

| | Fiscal 2005 vs. 2004 |
|---|---|
| Unit Volume Growth: | |
| 52 vs. 52−week Basis (as if fiscal 2004 contained 52 weeks) | +2 pts |
| Absence of 53rd week | –1 pt |
| Price/Product Mix/Foreign Currency Exchange | +4 pts |
| Trade and Coupon Promotion Expense | –3 pts |
| Net Sales Growth | +2% |

Cost of sales increased by $292 million, primarily driven by unit volume increases; $170 million in commodity cost increases; and $40 million in customer freight expense increases, primarily due to increased fuel costs.

SG&A costs decreased by $54 million from fiscal 2004 to fiscal 2005, primarily driven by three factors: a $51 million decrease in consumer marketing expense; a $34 million decrease in merger−related costs for the planning and execution of the integration of Pillsbury; and a $15 million increase in unallocated corporate items.

As detailed above in “Fiscal 2006 Consolidated Results of Operations,” restructuring and other exit costs were $84 million in fiscal 2005, compared to $26 million in 2004.

On March 23, 2005, we commenced a cash tender offer for our outstanding 6 percent notes due in 2012. The tender offer resulted in the purchase of $500 million principal amount of the notes. Subsequent to the expiration of the tender offer, we purchased an additional $260 million principal amount of the notes in the open market. The aggregate purchases resulted in debt repurchase costs of $137 million, consisting of $73 million of non−cash interest rate swap losses reclassified from Accumulated Other Comprehensive Income, $59 million of purchase premium and $5 million of noncash unamortized cost of issuance expense.

On February 28, 2005, SVE was terminated and our 40.5 percent interest was redeemed. On April 4, 2005, we sold our Lloyd’s barbecue business to Hormel Foods Corporation. We received $799 million in cash proceeds from these dispositions and recorded $499 million in gains in fiscal 2005.

Net interest expense decreased 10 percent from $508 million in fiscal 2004 to $455 million in fiscal 2005, primarily due to a reduction of our debt levels.

In fiscal 2005 our effective income tax rate increased to 36.6 percent, driven primarily by the tax impacts of our fiscal 2005 divestitures. The higher book tax expense related to the fiscal 2005 divestitures did not result in the payment of significant cash taxes. Our effective income tax rate was 35.0 percent in fiscal 2004.

After−tax earnings from joint venture operations grew 19 percent to reach $94 million in fiscal 2005, compared with $79 million reported a year earlier. This increase was primarily due to unit volume gains by our continuing joint ventures.

Average diluted shares outstanding were 409 million in fiscal 2005, down 1 percent from 413 million in fiscal 2004 as the repurchase of 17 million shares from Diageo was partially offset by stock option exercises.

**RESULTS OF SEGMENT OPERATIONS**

The following tables provide the dollar amount and percentage of net sales and operating profit from each reportable segment for fiscal 2006, 2005 and 2004:

**Net Sales**

| | 2006 | | 2005 | | 2004 | |
|---|---|---|---|---|---|---|
| In Millions, Fiscal Year | Net Sales | Percent of Net Sales | Net Sales | Percent of Net Sales | Net Sales | Percent of Net Sales |
| U.S. Retail | $ 8,137 | 69% | $ 7,891 | 70% | $ 7,843 | 70% |
| International | 1,837 | 16 | 1,725 | 15 | 1,550 | 14 |
| Bakeries and Foodservice | 1,738 | 15 | 1,692 | 15 | 1,729 | 16 |
| Total | $ 11,712 | 100% | $ 11,308 | 100% | $ 11,122 | 100% |

**Segment Operating Profit**

| | 2006 | | 2005 | | 2004 | |
|---|---|---|---|---|---|---|
| In Millions, Fiscal Year | Segment Operating Profit | Percent of Segment Operating Profit | Segment Operating Profit | Percent of Segment Operating Profit | Segment Operating Profit | Percent of Segment Operating Profit |
| U.S. Retail | $ 1,801 | 85% | $ 1,745 | 87% | $ 1,824 | 89% |
| International | 194 | 9 | 163 | 8 | 112 | 5 |
| Bakeries and Foodservice | 116 | 6 | 108 | 5 | 117 | 6 |
| Total | $ 2,111 | 100% | $ 2,016 | 100% | $ 2,053 | 100% |

We review operating results to evaluate segment performance. Operating profit for the reportable segments excludes: unallocated corporate items of $123 million for fiscal 2006, $32 million for fiscal 2005, and $17 million for fiscal 2004 (including a foreign currency transaction gain of $2 million in fiscal 2006 and foreign currency transaction losses of $6 million and $2 million in fiscal 2005 and 2004, respectively); net interest; restructuring and other exit costs; gains on divestitures; debt repurchase costs; income taxes; and after−tax earnings from joint ventures as these items are centrally managed at the corporate level and are excluded from the measure of segment profitability reviewed by 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, capital expenditures for long−lived assets, and depreciation and amortization expenses are neither maintained nor available by operating segment. See Note Seventeen to the Consolidated Financial Statements on pages 39 and 40 in Item Eight of this report for a reconciliation of segment operating profits and net earnings.



**U.S. Retail Segment Results**

For fiscal 2006, net sales for our U.S. Retail operations were $8.1 billion, up 3 percent from fiscal 2005. Net sales totaled $7.9 billion in fiscal 2005 and $7.8 billion in fiscal 2004. The components of the changes in net sales are shown in the following table:

**Components of U.S Retail Change in Net Sales**

| | Fiscal 2006 vs. 2005 | Fiscal 2005 vs. 2004 |
|---|---|---|
| Unit Volume Growth: | | |
| 52 vs. 52−week Basis (as if fiscal 2004 contained 52 weeks) | +2 pts | +3 pts |
| Absence of 53rd week | N/A | –2 pts |
| Price/Product Mix | Flat | +3 pts |
| Trade and Coupon Promotion Expense | +1 pt | –3 pts |
| Change in Net Sales | +3% | +1% |

Unit volume increased 2 points in fiscal 2006 versus fiscal 2005, led by strong growth in our Yoplait business and volume increases in our Meals, Baking Products and Snacks operating units. Favorable trade and coupon spending also contributed 1 point to the fiscal 2006 increase in net sales, as the rate of promotional activity decreased on a year over year basis, largely the result of narrowing price gaps between our products and competitors' products in several heavily promoted categories. Unit volume grew 1 percent in fiscal 2005 versus fiscal 2004, or 3 percent on a comparable 52–week basis, with growth in all divisions except Big G cereals.

All of our U.S. Retail divisions with the exception of Big G cereals and Pillsbury USA experienced net sales growth in fiscal 2006 as shown in the table below:

**U.S. Retail Change in Net Sales**

| | Fiscal 2006 vs. 2005 | Fiscal 2005 vs. 2004 |
|---|---|---|
| Yoplait | +14% | +7% |
| Meals | +7 | +1 |
| Baking Products | +6 | +4 |
| Snacks | +5 | Flat |
| Big G Cereals | –1 | –5 |
| Pillsbury USA | –1 | +2 |
| Total U.S. Retail | +3% | +1% |

For fiscal 2006, net sales for the Yoplait division grew 14 percent over fiscal 2005 primarily due to growth in established cup yogurt lines. The Meals division's net sales grew by 7 percent during fiscal 2006 led by *Progresso* soup and *Hamburger Helper*. Baking Products net sales grew 6 percent over fiscal 2005 reflecting the introduction of *Warm Delights* microwaveable desserts and strong performance during the holiday baking season. Net sales for the Snacks division grew 5 percent led by our *Nature Valley* granola bars and *Chex Mix* product lines. Big G cereals net sales declined 1 percent as our merchandising activity lagged competitors' levels, particularly in the first half of the year. Pillsbury USA net sales also declined 1 percent due to weakness in frozen breakfast items, frozen baked goods, and refrigerated cookies.

For fiscal 2005, Yoplait division net sales increased 7 percent with continued growth from established cup yogurt lines. Meals division net sales increased 1 percent with growth in our *Progresso*, *Hamburger Helper* and *Old El Paso* businesses offset by declines in shelf−stable vegetables. Baking Products division net sales increased 4 percent behind growth in mass merchandising channels. Snacks division net sales were flat. Big G cereals net sales fell 5 percent with contributions from new products including reduced−sugar versions of *Cinnamon Toast Crunch*, *Trix* and *Cocoa Puffs*, more than offset by the loss of volume associated with merchandising activity. Net sales growth of 2 percent for Pillsbury USA reflected gains for refrigerated cookies and bread and *Totino's* pizza and hot snacks.

Consumer retail purchases of our products were up 4 percent for fiscal 2006 as compared to fiscal 2005 in ACNielsen measured outlets and Wal−Mart. In fiscal 2005, retail dollar sales for our major brands grew 3 percent overall. The table below provides our retail dollar sales growth for major products for the past two years:

**Retail Dollar Sales Growth**

| | Fiscal 2006 vs. 2005 | Fiscal 2005 vs. 2004 |
|---|---|---|
| **Composite Retail Sales** | **+4%** | **+3%** |
| Granola Bars/Grain Snacks | +15% | +2% |
| Refrigerated Yogurt | +14 | +9 |
| Ready−to−serve Soup | +12 | +12 |
| Hot Snacks | +8 | +14 |

| | | |
|---|---|---|
| Dessert Mixes | +7 | +6 |
| Refrigerated Dough | +3 | +4 |
| Frozen Vegetables | +2 | +5 |
| Ready−to−eat Cereals | Flat | –1 |
| Microwave Popcorn | –1 | +4 |
| Dry Dinners | –1 | +2 |
| Fruit Snacks | –6 | –3 |

Channels include ACNielsen measured outlets and Wal−Mart.

Operating profit of $1.80 billion in fiscal 2006 improved $56 million, or 3 percent, over fiscal 2005. Unit volume increases accounted for approximately $89 million of the improvement. Net pricing realization (defined as the impact of list and promoted price increases net of trade and other promotion costs) and product mix of $98 million exceeded manufacturing and distribution rate increases of $77 million. Increases in consumer marketing spending of $32 million accounted for a majority of the remainder of the change.

Fiscal 2005 operating profit was $1.75 billion, down $79 million, or 4 percent, versus fiscal 2004. Unit volume growth contributed approximately $39 million. Cost of sales increased by $198 million, driven primarily by commodity



cost increases, and net pricing realization did not contribute to offset those increased costs. SG&A costs decreased by $70 million, primarily due to decreases in consumer marketing spending.

**International Segment Results**

For fiscal 2006, net sales for our International segment were $1.84 billion, up 6 percent. Net sales totaled $1.72 billion in fiscal 2005 compared to $1.55 billion in 2004. The components of net sales growth are shown in the following table:

**Components of International Change in Net Sales**

| | Fiscal 2006 vs. 2005 | Fiscal 2005 vs. 2004 |
|---|---|---|
| Unit Volume Growth: | | |
| 52 vs. 52−week Basis (as if fiscal 2004 contained 52 weeks) | +4 pts | +6 pts |
| Absence of 53rd week | N/A | –1 pt |
| Price/Product Mix | +2 pts | +3 pts |
| Foreign Currency Exchange | +1 pt | +6 pts |
| Trade and Coupon Promotion Expense | –1 pt | –3 pts |
| Change in Net Sales | +6% | +11% |

For fiscal 2006 versus fiscal 2005, unit volume grew 4 percent, driven by a 6 percent increase in the Asia/Pacific region. For fiscal 2005 versus fiscal 2004, unit volume grew 5 percent for the year and comparable 52−week volume was up 6 percent, driven by 12 percent growth in the Asia/Pacific region.

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

**International Change in Net Sales**

| | Fiscal 2006 vs. 2005 | Fiscal 2005 vs. 2004 |
|---|---|---|
| Canada | +10% | +9% |
| Asia/Pacific | +9 | +14 |
| Latin America/Other | +9 | +10 |
| Europe | +1 | +12 |
| Total International | +6% | +11% |

Operating profits for fiscal 2006 grew to $194 million, up 19 percent from the prior year, with foreign currency exchange effects contributing 2 percentage points of that growth. Improvement in unit volume contributed $24 million; net pricing realization of $46 million more than offset the effects of supply chain cost changes; and consumer marketing spending increased $24 million.

Operating profits grew to $163 million in fiscal 2005, 46 percent above fiscal 2004's $112 million. Foreign currency exchange effects contributed 9 percentage points of that growth. The unit volume increase in fiscal 2005 contributed approximately $27 million; net price realization more than offset increases in cost of sales; and SG&A costs increased $30 million.

**Bakeries and Foodservice Segment Results**

For fiscal 2006, net sales for our Bakeries and Foodservice segment increased 3 percent to $1.74 billion. Net sales decreased slightly to $1.69 billion in fiscal 2005 compared to $1.73 billion in fiscal 2004. The components of the change in net sales are shown in the following table:

**Components of Bakeries and Foodservice Change in Net Sales**

| | Fiscal 2006 vs. 2005 | Fiscal 2005 vs. 2004 |
|---|---|---|
| Unit Volume Growth: | | |
| 52 vs. 52−week Basis (as if fiscal 2004 contained 52 weeks) | Flat | –4 pts |
| Absence of 53rd week | N/A | –2 pts |
| Price/Product Mix | +4 pts | +3 pts |
| Trade and Coupon Promotion Expense | –1 pt | +1 pt |
| Change in Net Sales | +3% | –2% |

Fiscal 2006 unit volume was flat as compared to fiscal 2005, with net price realization and product mix making up the primary increase in net sales growth for the fiscal year. In fiscal 2005, unit volume was down 6 percent compared with fiscal 2004, or down 4 percent on a comparable 52−week basis, reflecting softness in shipments to our foodservice distributors and bakery customers that was partially offset by growth in sales to convenience stores.

The change in net sales by major customer category is set forth in the following table:

**Bakeries and Foodservice Change in Net Sales**

| | Fiscal 2006 vs. 2005 | Fiscal 2005 vs. 2004 |
|---|---|---|
| Convenience Stores/Vending | +6% | +11% |
| Wholesale/In−store Bakery | +5 | –4 |
| Distributors/Restaurants | Flat | –3 |
| Total Bakeries and Foodservice | +3% | –2% |

Table does not add due to rounding.

Operating profits for the segment were $116 million in fiscal 2006, up 7 percent from $108 million in fiscal 2005. Unit volume was flat, and pricing actions essentially covered manufacturing and distribution rate increases of $41 million.

Fiscal 2005 operating profits decreased from $117 million in fiscal 2004 to $108 million in fiscal 2005. The unit volume decline reduced earnings by $20 million, but $74 million of net pricing realization more than offset manufacturing and distribution rate increases.

**Unallocated Corporate Items**

For fiscal 2006, unallocated corporate expenses were $123 million compared to $32 million in fiscal 2005. Fiscal 2006 included: higher domestic employee benefit expense, including incentives, that increased by $61 million over



fiscal 2005; increases in environmental reserves of $23 million; and a $10 million write−down of the asset value of a low−income housing investment.

Unallocated corporate expenses in fiscal 2005 included $18 million in costs (classified as cost of sales) associated with restructuring and other exit activities. Fiscal 2004 expense was $17 million, including merger−related costs of $34 million.

**Joint Ventures**

Net sales growth for CPW in fiscal 2006 was restrained by unfavorable foreign currency effects. Our share of after−tax joint venture earnings decreased from $94 million in fiscal 2005 to $69 million in fiscal 2006. As noted above, this reflects the absence of SVE earnings and the inclusion of $8 million of restructuring costs for CPW in fiscal 2006.

**Joint Venture Change in Net Sales**

| | Fiscal 2006 vs. 2005 | Fiscal 2005 vs. 2004 |
|---|---|---|
| CPW | +4% | +13% |
| Häagen−Dazs | –7 | +6 |
| 8th Continent | +14 | +37 |
| Ongoing Joint Ventures | +2% | +12% |

Our interest in SVE was redeemed in February 2005, and therefore is excluded from the table above. See page 15 for our discussion of this measure not defined by GAAP.

Our share of after−tax joint venture earnings increased from $79 million in fiscal 2004 to $94 million in fiscal 2005, primarily due to unit volume gains in our continuing ventures.

## IMPACT OF INFLATION

It is our view that changes in the general rate of inflation have not had a significant effect on profitability over the three most recent fiscal years other than as noted above related to commodities and employee benefit costs. We attempt to minimize the effects of inflation through appropriate planning and operating practices. Our risk management practices are discussed on page 27 in Item Seven A of the Initial Report.

## LIQUIDITY AND CAPITAL RESOURCES

Sources and uses of cash in the past three fiscal years are shown in the following table. Over the most recent three−year period, our operations have generated $5.2 billion in cash. In fiscal 2006, cash flow from operations totaled nearly $1.8 billion. The increase in cash flows from operations from fiscal 2005 to fiscal 2006 was primarily the result of increases in accrued compensation and accrued income taxes. The increase in cash flows from operations from fiscal 2004 to fiscal 2005 was primarily the result of increases in accrued income taxes resulting from cash benefits from the utilization of capital losses for tax purposes.

**Cash Sources (Uses)**

| In Millions, for Fiscal Year Ended | May 28, 2006 | May 29, 2005 | May 30, 2004 |
|---|---|---|---|
| Net cash provided by operations | $ 1,848 | $ 1,794 | $ 1,521 |
| Purchases of land, buildings and equipment | (360) | (434) | (653) |
| Proceeds from disposal of land, buildings and equipment | 11 | 24 | 36 |
| Investments in businesses and affiliates, net | (25) | 1 | (37) |
| Change in marketable securities | 1 | 32 | 122 |
| Proceeds from disposition of businesses | – | 799 | – |
| Other investing activities, net | 4 | (9) | 2 |
| Payment of outstanding debt, net | (189) | (2,170) | (695) |
| Proceeds from minority interest investors | – | 835 | – |
| Common stock issued | 157 | 195 | 192 |
| Treasury stock purchases | (885) | (771) | (24) |
| Dividends paid | (485) | (461) | (413) |
| Other financing activities, net | (3) | (13) | (3) |
| Increase (Decrease) in Cash and Cash Equivalents | $ 74 | $ (178) | $ 48 |

In fiscal 2006, capital investment for land, buildings and equipment decreased to $360 million from $434 million in fiscal 2005. We expect capital expenditures of approximately $425 million in fiscal 2007.

Dividends paid in fiscal 2006 totaled $485 million, or $1.34 per share, an 8 percent increase from fiscal 2005 dividends of $1.24 per share. Our Board of Directors announced a quarterly dividend increase from $0.31 per share to $0.33 per share effective with the dividend paid on August 1, 2005, a quarterly dividend increase to $0.34 per share effective with the dividend paid on February 1, 2006, and another quarterly dividend increase to $0.35 per share effective with the dividend payable on August 1, 2006.

Our Board of Directors has authorized the repurchase from time to time of shares of our common stock subject to a maximum of 170 million shares held in our treasury.



During fiscal 2006, we repurchased 19 million shares of common stock for an aggregate purchase price of $892 million, of which $7 million settled after the end of our fiscal year. In fiscal 2005, we repurchased 17 million shares of common stock for an aggregate purchase price of $771 million. A total of 146 million shares were held in treasury at May 28, 2006.

We also used cash from operations to repay $189 million in outstanding debt in fiscal 2006. In fiscal 2005, we repaid nearly $2.2 billion of debt, including the purchase of $760 million principal amount of our 6 percent notes due in 2012. Fiscal 2005 debt repurchase costs were $137 million, consisting of $73 million of noncash interest rate swap losses reclassified from Accumulated Other Comprehensive Income, $59 million of purchase premium and $5 million of noncash unamortized cost of issuance expense.

**Capital Structure**

| In Millions | May 28, 2006 | May 29, 2005 |
|---|---|---|
| Notes payable | $ 1,503 | $ 299 |
| Current portion of long−term debt | 2,131 | 1,638 |
| Long−term debt | 2,415 | 4,255 |
| Total debt | 6,049 | 6,192 |
| Minority interests | 1,136 | 1,133 |
| Stockholders’ equity | 5,772 | 5,676 |
| Total Capital | $ 12,957 | $ 13,001 |

We have $2.1 billion of long−term debt maturing in the next 12 months and classified as current, including $131 million that may mature in fiscal 2007 based on the put rights of those note holders. 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.

On October 28, 2005, we repurchased a significant portion of our zero coupon convertible debentures pursuant to put rights of the holders for an aggregate purchase price of $1.33 billion, including $77 million of accreted original issue discount. These debentures had an aggregate principal amount at maturity of $1.86 billion. We incurred no gain or loss from this repurchase. As of May 28, 2006, there were $371 million in aggregate principal amount at maturity of the debentures outstanding, or $268 million of accreted value. We used proceeds from the issuance of commercial paper to fund the purchase price of the debentures. We also have reclassified the remaining zero coupon convertible debentures to long−term debt based on the October 2008 put rights of the holders.

On March 23, 2005, we commenced a cash tender offer for our outstanding 6 percent notes due in 2012. The tender offer resulted in the purchase of $500 million principal amount of the notes. Subsequent to the expiration of the tender offer, we purchased an additional $260 million principal amount of the notes in the open market. The aggregate purchases resulted in the debt repurchase costs as discussed above.

Our minority interests consist of interests in certain of our subsidiaries that are held by third parties. General Mills Cereals, LLC (GMC), our subsidiary, holds the manufacturing assets and intellectual property associated with the production and retail sale of Big G ready−to−eat cereals, *Progresso* soups and *Old El Paso* products. In May 2002, one of our wholly owned subsidiaries sold 150,000 Class A preferred membership interests in GMC to an unrelated third−party investor in exchange for $150 million, and in October 2004, another of our wholly owned subsidiaries sold 835,000 Series B−1 preferred membership interests in GMC in exchange for $835 million. All interests in GMC, other than the 150,000 Class A interests and 835,000 Series B−1 interests, but including all managing member interests, are held by our wholly owned subsidiaries. In fiscal 2003, General Mills Capital, Inc. (GM Capital), a subsidiary formed for the purpose of purchasing and collecting our receivables, sold $150 million of its Series A preferred stock to an unrelated third−party investor.

The Class A interests of GMC receive quarterly preferred distributions at a floating rate equal to (i) the sum of three−month LIBOR plus 90 basis points, divided by (ii) 0.965. This rate will be adjusted by agreement between the third−party investor holding the Class A interests and GMC every five years, beginning in June 2007. Under certain circumstances, GMC also may be required to be dissolved and liquidated, including, without limitation, the bankruptcy of GMC or its subsidiaries, failure to deliver the preferred distributions, 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 Standard & Poor's, and a failed attempt to remarket the Class A interests as a result of a breach of GMC's obligations to assist in such remarketing. In the event of a liquidation of GMC, each member of GMC would receive the amount of its then current capital account balance. The managing member may avoid liquidation in most circumstances by exercising an option to purchase the Class A interests.

The Series B−1 interests of GMC are entitled to receive quarterly preferred distributions at a fixed rate of 4.5 percent per year, which is scheduled to be reset to a new fixed rate through a remarketing in October 2007. Beginning in October 2007, the managing member of GMC may elect to repurchase the Series B−1 interests for an amount equal to the holder's then current capital account balance plus any applicable make−whole amount. GMC is not required to purchase the Series B−1 interests nor may these investors put these interests to us. The Series B−1 interests will be exchanged for shares of our perpetual preferred stock upon the occurrence of any of the following events: our senior unsecured debt rating falling below either Ba3 as rated by Moody's or BB− as rated by Standard & Poor's or Fitch, Inc.,



our bankruptcy or liquidation, a default on any of our senior indebtedness resulting in an acceleration of indebtedness having an outstanding principal balance in excess of $50 million, failing to pay a dividend on our common stock in any fiscal quarter, or certain liquidating events. If GMC fails to make a required distribution to the holders of Series B−1 interests when due, we will be restricted from paying any dividend (other than dividends in the form of shares of common stock) or other distributions on shares of our common or preferred stock, and may not repurchase or redeem shares of our common or preferred stock, until all such accrued and undistributed distributions are paid to the holders of the Series B−1 interests.

For financial reporting purposes, the assets, liabilities, results of operations and cash flows of GMC and GM Capital are included in our consolidated financial statements. The third−party investors' Class A and Series B−1 interests in GMC and the preferred stock of GM Capital are reflected as minority interests on our consolidated balance sheets, and the return to the third party investors is reflected in interest expense, net, in the consolidated statements of earnings. See Note Nine to the Consolidated Financial Statements on pages 31 and 32 in Item Eight for more information regarding our minority interests.

At May 28, 2006, our cash and cash equivalents included $11 million in GMC and $21 million in GM Capital that are restricted from use for our general corporate purposes pursuant to the terms of our agreements with third−party minority interest investors.

In October 2004, we entered into a forward purchase contract under which we are obligated to deliver between approximately 14 million and 17 million shares of our common stock in October 2007, subject to adjustment under certain circumstances, in exchange for $750 million of cash or, in certain circumstances, securities of an affiliate of the forward counterparty.

The following table, when reviewed in conjunction with the capital structure table above, shows the composition of our debt structure including the impact of using derivative instruments:

**Debt Structure**

| In Millions | May 28, 2006 | | May 29, 2005 | |
|---|---|---|---|---|
| Floating−rate | $ 2,228 | 37% | $ 1,049 | 17% |
| Fixed−rate | 3,821 | 63% | 5,143 | 83% |
| Total Debt | $ 6,049 | 100% | $ 6,192 | 100% |

Commercial paper is a continuing source of short−term financing. We can issue commercial paper in the United States, Canada and Europe. Our commercial paper borrowings are supported by $2.95 billion of fee−paid committed credit lines and $335 million in uncommitted lines. On October 21, 2005, we entered into a new $1.1 billion 364−day credit facility expiring in October 2006 and a new $1.1 billion five−year credit facility expiring in October 2010. These new facilities replaced our $1.1 billion credit facility that would have expired in January 2006 and our $750 million credit facility that would have expired in April 2006. We also have a $750 million five−year credit facility that will expire in January 2009. Our credit facilities, certain of our long−term debt agreements and our minority interests contain restrictive covenants. At May 28, 2006, we were in compliance with all of these covenants.

The following table details the fee−paid committed credit lines we had available as of May 28, 2006:

**Committed Credit Facilities**

| | Amount |
|---|---|
| Credit facility maturing: | |
| October 2006 | $1.10 billion |
| January 2009 | 0.75 billion |
| October 2010 | 1.10 billion |
| Total Committed Credit Facilities | $2.95 billion |

We have an effective shelf registration statement on file with the SEC covering the sale of debt securities, common stock, preference stock, depository shares, securities warrants, purchase contracts, purchase units and units. As of May 28, 2006, approximately $5.1 billion remained available under the shelf registration for future use.

We believe that two important measures of financial strength are the ratio of fixed charge coverage and the ratio of operating cash flow (defined as net cash provided by operating activities) to debt (defined as notes payable plus long−term debt, including current portion). Our fixed charge coverage was 4.5 in fiscal 2006 and 4.6 in fiscal 2005. Fiscal 2005 was favorably impacted by the gain on our disposition of our 40.5 percent equity interest in SVE. Our operating cash flow to debt ratio increased to 31 percent in fiscal 2006 from 29 percent in fiscal 2005. Currently, Standard and Poor's Corporation has ratings of BBB+ on our publicly held long−term debt and A−2 on our commercial paper. Moody's Investors Services, Inc. has ratings of Baa2 for our long−term debt and P−2 for our commercial paper. Fitch Ratings, Inc. rates our long−term debt BBB+ and our commercial paper F−2. Dominion Bond Rating Service in Canada currently rates General Mills as A−low. 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.

We also believe that growth in return on average capital is a key measure, and it is used for management performance ratings. Return on average capital increased from 10.0 percent in 2005 to 10.6 percent in 2006 due to earnings growth and disciplined use of cash.

**OFF−BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS**

It is not our general business practice to enter into off−balance sheet arrangements nor is it our policy to issue



guarantees to third parties. We have, however, issued guarantees and comfort letters of $171 million for the debt and other obligations of unconsolidated affiliates, primarily for CPW. In addition, off−balance sheet arrangements are generally limited to the future payments under noncancelable operating leases, which totaled $408 million at May 28, 2006.

At May 28, 2006, we had invested in four variable interest entities (VIEs). We are the primary beneficiary (PB) of General Mills Capital, Inc. (GM Capital), a subsidiary that we consolidate as set forth in Note Nine to the Consolidated Financial Statements appearing on pages 31 and 32 in Item Eight of this report. We also have an interest in a contract manufacturer at our former facility in Geneva, Illinois. Even though we are the PB, we have not consolidated this entity because it is not material to our results of operations, financial condition, or liquidity at May 28, 2006. This entity had property and equipment of $50 million and long−term debt of $50 million at May 28, 2006. We are not the PB of the remaining two VIEs. Our maximum exposure to loss from these VIEs is limited to the $150 million minority interest in GM Capital, the contract manufacturer's debt and our $6 million of equity investments in the two remaining VIEs.

The following table summarizes our future estimated cash payments under existing contractual obligations, including payments due by period. 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−directed marketing commitments that support our brands. The net fair value of our interest rate and equity swaps was $159 million at May 28, 2006, based on 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 primarily consist of income taxes, accrued compensation and benefits, and miscellaneous liabilities. We are unable to estimate the timing of the payments for these items. We do not have significant statutory or contractual funding requirements for our defined−benefit retirement and other postretirement benefit plans. Further information on these plans, including our expected contributions for fiscal 2007, is set forth in Note Fourteen to the Consolidated Financial Statements appearing on pages 35 through 38 in Item Eight of this report.

| In Millions, Payments Due by Fiscal Year | Total | 2007 | 2008−09 | 2010−11 | 2012 and Thereafter |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Long−term debt | $ 4,546 | $ 2,131 | $ 971 | $ 55 | $ 1,389 |
| Accrued interest | 152 | 152 | – | – | – |
| Operating leases | 408 | 92 | 142 | 89 | 85 |
| Purchase obligations | 2,351 | 2,068 | 144 | 75 | 64 |
| Total | $ 7,457 | $ 4,443 | $ 1,257 | $ 219 | $ 1,538 |

## SIGNIFICANT ACCOUNTING ESTIMATES

For a complete description of our significant accounting policies, please see Note Two to the Consolidated Financial Statements appearing on pages 23 through 25 in Item Eight of this report. Our significant accounting estimates are those that have meaningful impact on the reporting of our financial condition and results of operations. These policies include our accounting for trade and consumer promotion activities; goodwill and other intangible asset impairments; income taxes; and pension and other postretirement benefits.

### Trade and Consumer Promotion Activities

We report sales net of certain coupon and trade promotion costs. The consumer coupon costs recorded as a reduction of sales are based on the estimated redemption value of those coupons, as determined by historical patterns of coupon redemption and consideration of current market conditions such as competitive activity in those product categories. The trade promotion costs 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, and payments to gain distribution of new products. The cost of these activities is 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 quantity of 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 and consumer promotion liability was $294 million as of May 28, 2006, and $273 million as of May 29, 2005.

Our unit volume in the last week of each quarter is consistently higher than the average for the preceding weeks of the quarter. In comparison to the average daily shipments in the first 12 weeks of a quarter, the final week of each quarter has approximately two to 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.



### Goodwill and Other Intangible Asset Impairments

Goodwill represents the difference between the purchase prices of acquired companies and the related fair values of net assets acquired. Goodwill is not subject to amortization and is tested for impairment annually and whenever events or changes in circumstances indicate that an impairment may have occurred. Impairment testing is performed for each of our reporting units. We compare the carrying amount of goodwill for a reporting unit with its fair value and if the carrying amount of goodwill exceeds its fair value, an impairment has occurred.

Finite and indefinite−lived intangible assets, primarily brands, are also tested for impairment annually and whenever events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss would be recognized when fair value is less than the carrying amount of the intangible.

Our estimates of fair value are determined based on a discounted cash flow model using inputs from our annual long−range planning process. We also make estimates of discount rates, perpetuity growth assumptions and other factors. We have completed our annual impairment testing and determined none of our goodwill or other intangible assets was impaired.

### Income Taxes

Our consolidated effective income tax rate is influenced by tax planning opportunities available to us in the various jurisdictions in which we operate and involves management judgment as to the ultimate resolution of any tax issues. We accrue liabilities in current income taxes payable for potential assessments related to uncertain tax positions in a variety of taxing jurisdictions. Historically, our assessments of the ultimate resolution of tax issues have been reasonably accurate. The current open tax issues are not dissimilar in size or substance from historical items, except for the accounting for losses recorded as part of the Pillsbury transaction. Management currently believes that the ultimate resolution of these matters, including the accounting for losses recorded as part of the Pillsbury transaction, will not have a material effect on our business, financial condition, results of operations or liquidity.

**Pension and Other Postretirement Benefits**

We have defined−benefit retirement plans covering most U.S., Canadian and United Kingdom employees. Benefits for salaried employees are based on length of service and final average compensation. The hourly plans include various monthly amounts for each year of credited service. Our funding policy is consistent with the requirements of applicable laws. Our principal retirement plan covering domestic salaried employees has a provision that any excess pension assets would vest in plan participants if the plan is terminated within five years of a change in control.

We also sponsor plans that provide health care benefits to the majority of our U.S. 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 and made $95 million of voluntary contributions to these plans in fiscal 2006.

***Actuarial Assumptions*** We recognize benefits provided during retirement over the plan participants' active working life. Accordingly, we must use various actuarial assumptions to predict and measure costs and obligations many years prior to the settlement of our obligations. Actuarial 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, how we derive the market−related values of assets 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.

The investment objective for our pension and other postretirement benefit plans is to secure the benefit obligations to participants at a reasonable cost to us. The goal is to optimize the long−term return on plan assets at a moderate level of risk. The pension and postretirement portfolios are broadly diversified across asset classes. Within asset classes, the portfolios are further diversified across investment styles and investment organizations. For the pension and other postretirement plans, the long−term investment policy allocations are: 30 percent to U.S. equities; 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) were 16 percent, 9 percent, 11 percent, 12 percent and 12 percent for the 1, 5, 10, 15 and 20 year periods ended May 28, 2006.

For fiscal 2006, 2005 and 2004, we assumed a rate of return of 9.6 percent on our pension plan assets and our other postretirement plan assets.

Lowering the expected long−term rate of return on assets by 50 basis points would increase our net pension and postretirement expense for fiscal 2007 by approximately $18 million.



**Discount Rates** Our discount rate assumptions are determined annually as of the last day of our fiscal year for our pension and other postretirement obligations. Those same discount rates also are used to determine pension and other postretirement 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 high−quality 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. The discount rates used in our pension and other postretirement assumptions were 5.55 percent and 5.5 percent, respectively, for the obligations as of May 29, 2005, and for our fiscal 2006 income and expense, and 6.65 percent for the obligations as of May 30, 2004, and for our fiscal 2005 income and expense.

Lowering the discount rate by 50 basis points would increase our net pension and postretirement expense for fiscal 2007 by approximately $24 million.

**Market−Related Value** We base our determination of pension expense or income on a market−related valuation of assets which reduces year−to−year volatility. This market−related valuation recognizes 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. Since the market−related value of assets recognizes gains or losses over a five−year period, the future value of assets will be impacted as previously deferred gains or losses are recorded.

**Health Care Cost Trend Rates** We review our health care trend rates annually. Our review is based on data and information 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 current health care cost trend rate assumption is 11 percent for retirees age 65 and over and 10 percent for retirees under age 65. These rates are graded down annually until the ultimate trend rate of 5.2 percent is reached in 2013 for retirees over age 65 and 2014 for retirees under age 65. 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 postretirement benefit plans.

If the health care cost trend rate increased by 1 percentage point in each future year, the aggregate of the service and interest cost components of postretirement expense for fiscal 2007 would increase by $7 million, and the postretirement accumulated benefit obligation as of May 28, 2006, would increase by $90 million.

***Financial Statement Impact*** In fiscal 2006, we recorded net pension and postretirement expense of $25 million compared to $6 million in fiscal 2005 and $5 million in fiscal 2004.

As of May 28, 2006, we had cumulative unrecognized actuarial net losses of $464 million on our pension plans and $317 million on our postretirement plans, primarily as the result of decreases in our discount rate assumptions. 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.

For our fiscal 2007 pension and other postretirement income and expense estimate, we have increased the discount rate to 6.55 percent for our pension liabilities and 6.5 percent for our other postretirement liabilities, based on interest rates and our credit spread as of May 28, 2006. The expected rate of return on plan assets remains 9.6 percent. Actual future net pension and postretirement income or expense will depend on investment performance, changes in future discount rates and various other factors related to the populations participating in our pension and postretirement plans.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123(Revised) "Share−Based Payment" (SFAS 123R), which generally requires public companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant−date fair value and to recognize this cost over the period during which the employee is required to provide service in exchange for the award. The standard is effective for public companies for annual periods beginning after June 15, 2005, with several transition options regarding prospective versus retrospective application. We will adopt SFAS 123R in the first quarter of fiscal 2007, using the modified prospective method. Accordingly, prior year results will not be restated, but fiscal 2007 results will be presented as if we had applied the fair value method of accounting for stock−based compensation from the beginning of fiscal 1997. We currently expect the impact of adopting the fair value method of valuing stock awards to be approximately $0.11 to $0.12 per diluted share for fiscal 2007. However, the actual impact on fiscal 2007 will be largely dependent



on the particular structure of stock−based awards granted during fiscal 2007 and various market factors that affect the fair value of awards. We are evaluating whether to allocate these costs to our operating segments. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as currently required, thereby reducing net operating cash flows and increasing net financing cash flows in periods following adoption. While those amounts cannot be estimated for future periods, the amount of operating cash flows generated in prior periods for such excess tax deductions was $41 million for fiscal 2006, $62 million for fiscal 2005 and $63 million for fiscal 2004. See Note Two to the Consolidated Financial Statements on pages 23 through 25 in Item Eight of this report.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs – An Amendment of ARB No. 43, Chapter 4." SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). SFAS No. 151 is effective for us in the first quarter of fiscal 2007. We do not expect SFAS No. 151 to have a material impact on our results of operations or financial condition.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 clarifies when tax benefits should be recorded in financial statements, requires certain disclosures of uncertain tax matters and indicates how any tax reserves should be classified in a balance sheet. FIN 48 is effective for us in the first quarter of fiscal 2008. We are evaluating the impact of FIN 48 on our results of operations and financial condition.

**NON−GAAP MEASURES**

We have included in this Management's Discussion and Analysis of Financial Condition and Results of Operations 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 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. Fiscal years prior to 2004 are presented in support of our discussion of these measures outside of this Annual Report on Form 10−K.

*Diluted EPS excluding the effects of our convertible debentures and the net benefit of gains on divestitures and debt repurchase costs:*

This non−GAAP measure is used in internal management reporting and as a component of the Board of Directors' rating of our performance for management and employee incentive compensation. Management and the Board of Directors believe that this measure provides useful information to investors as it eliminates the effects of infrequently occurring events, thereby improving the comparability of year−to−year results of operations.

| In Millions, Except Per Share Data, Fiscal Year | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|
| Net earnings for EPS calculation | $ 1,099 | $ 1,260 | $ 1,075 | $ 928 |
| Deduct: Interest on contingently convertible debentures, after−tax | (9) | (20) | (20) | (11) |
| Deduct: Divestitures gain, after−tax | — | (284) | — | — |
| Add: Debt repurchase costs, after−tax | — | 87 | — | — |
| Net earnings excluding after−tax effect of accounting for contingently convertible debentures, divestitures gain and debt repurchase costs | $ 1,090 | $ 1,043 | $ 1,055 | $ 917 |
| Average number of common shares outstanding for EPS calculation | 379 | 409 | 413 | 395 |
| Deduct: Incremental share effect from contingently convertible debentures | (13) | (29) | (29) | (17) |
| Average number of common shares outstanding excluding effect of accounting for contingently convertible debentures | 366 | 380 | 384 | 378 |
| Diluted EPS excluding after−tax effect of accounting for contingently convertible debentures, divestitures gain and debt repurchase costs | $ 2.98 | $ 2.75 | $ 2.75 | $ 2.43 |



*Total segment operating profit:*

This non−GAAP measure is used in internal management reporting and as a component of the Board of Directors' rating of our performance for management and employee incentive compensation. 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. Operating profit for the reportable segments and total segment operating profit exclude unallocated corporate items; net interest; restructuring and other exit costs; gains on divestitures; debt repurchase costs; income taxes; and after−tax earnings from joint ventures as these items are centrally managed at the corporate level.

| In Millions, Fiscal Year | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| Segment Operating Profit: | | | | | |
| U.S. Retail | $ 1,801 | $ 1,745 | $ 1,824 | $ 1,764 | $ 1,064 |
| International | 194 | 163 | 112 | 85 | 41 |
| Bakeries and Foodservice | 116 | 108 | 117 | 146 | 148 |

| | | | | | |
|---|---|---|---|---|---|
| Total segment operating profit | 2,111 | 2,016 | 2,053 | 1,995 | 1,253 |
| Unallocated corporate expenses | (123) | (32) | (17) | (76) | (40) |
| Restructuring and other exit costs | (30) | (84) | (26) | (62) | (134) |
| Operating Profit | $ 1,958 | $ 1,900 | $ 2,010 | $ 1,857 | $ 1,079 |

*Return on average total capital:*

This non−GAAP measure is used in internal management reporting and as a component of the Board of Directors' rating of our performance for management and employee incentive compensation. 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 the year−to−year comparability.

| In Millions, Fiscal Year | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|
| Net earnings | $ 1,090 | $ 1,240 | $ 1,055 | $ 917 | $ 458 | $ 665 | |
| Interest, net, after−tax | 261 | 289 | 330 | 356 | 267 | 134 | |
| Divestitures gain, after−tax | – | (284) | – | – | – | – | |
| Debt repurchase costs, after−tax | – | 87 | – | – | – | – | |
| Earnings before interest, after−tax (adjusted) | $ 1,351 | $ 1,332 | $ 1,385 | $ 1,273 | $ 725 | $ 799 | |
| Current portion of long−term debt | $ 2,131 | $ 1,638 | $ 233 | $ 105 | $ 248 | $ 349 | $ 414 |
| Notes payable | 1,503 | 299 | 583 | 1,236 | 3,600 | 858 | 1,086 |
| Long−term debt | 2,415 | 4,255 | 7,410 | 7,516 | 5,591 | 2,221 | 1,760 |
| Total debt | 6,049 | 6,192 | 8,226 | 8,857 | 9,439 | 3,428 | 3,260 |
| Minority interests | 1,136 | 1,133 | 299 | 300 | 153 | – | – |
| Stockholders' equity | 5,772 | 5,676 | 5,248 | 4,175 | 3,576 | 52 | (289) |
| Total capital | 12,957 | 13,001 | 13,773 | 13,332 | 13,168 | 3,480 | 2,971 |
| Less: 2005 Divestitures gain, net of debt repurchase costs, after−tax | (197) | (197) | – | – | – | – | – |
| Less: Accumulated other comprehensive (income) loss | (125) | (8) | 144 | 342 | 376 | 93 | 86 |
| Adjusted total capital | $ 12,635 | $ 12,796 | $ 13,917 | $ 13,674 | $ 13,544 | $ 3,573 | $ 3,057 |
| Adjusted average total capital | $ 12,716 | $ 13,356 | $ 13,796 | $ 13,609 | $ 8,559 | $ 3,315 | |
| Return on average total capital | 10.6% | 10.0% | 10.0% | 9.4% | 8.5% | 24.1% | |



*Change in net sales excluding the effect of the 53rd week:*

Our fiscal year ends on the last Sunday of May. While our typical fiscal year includes 52 weeks, every 5 or 6 years our fiscal year includes a 53rd week, as it did in the fiscal year ended May 30, 2004. That 53rd week impacts the comparability of annual results. To view our results on a comparable basis, we have provided net sales growth information on a comparable 52−week basis. The effect of the 53rd week was determined using one−fifth of the values of the five−week month of May 2004.

| | Net Sales | |
|---|---|---|
| In Millions, Fiscal Year | 2005 | 2004 |
| As reported (including the effect of the 53rd week): | | |
| U.S. Retail | $ 7,891 | $ 7,843 |
| International | 1,725 | 1,550 |
| Bakeries and Foodservice | 1,692 | 1,729 |
| Total | $ 11,308 | $ 11,122 |

Effect of 53rd week in fiscal 2004:

| | | | | |
|---|---|---|---|---|
| U.S. Retail | | | $ | 141 |
| International | | | | 7 |
| Bakeries and Foodservice | | | | 33 |
| Total | | | $ | 181 |
| Net sales excluding the effect of the 53rd week: | | | | |
| U.S. Retail | $ | 7,891 | $ | 7,702 |
| International | | 1,725 | | 1,543 |
| Bakeries and Foodservice | | 1,692 | | 1,696 |
| Total | $ | 11,308 | $ | 10,941 |

| | |
|---|---|
| Growth rate, including the effect of the 53rd week: | |
| U.S. Retail | 1% |
| International | 11% |
| Bakeries and Foodservice | −2% |
| Total | 2% |
| Growth rate, excluding the effect of the 53rd week: | |
| U.S. Retail | 2% |
| International | 12% |
| Bakeries and Foodservice | 0% |
| Total | 3% |

*Ongoing joint ventures:*

Our interest in SVE was redeemed in February 2005. To view the performance of our joint ventures on an ongoing basis, we have provided certain information excluding SVE.

| In Millions, Fiscal Year | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|
| After−tax earnings from joint ventures: | | | | |
| As reported | $ 69 | $ 94 | $ 79 | $ 65 |
| Less: SVE | – | (28) | (26) | (21) |
| Ongoing joint ventures | $ 69 | $ 66 | $ 53 | $ 44 |
| Net sales of joint ventures (100% basis): | | | | |
| As reported | $ 1,796 | $ 2,652 | $ 2,625 | $ 2,159 |
| Less: SVE | – | (896) | (1,055) | (870) |
| Ongoing joint ventures | $ 1,796 | $ 1,756 | $ 1,570 | $ 1,289 |

| Fiscal Year | 2006 vs. 2005 | 2005 vs. 2004 | 2004 vs. 2003 |
|---|---|---|---|
| Change in net sales of joint ventures (100% basis): | | | |
| As reported | –32% | +1% | +22% |
| Ongoing joint ventures | +2% | +12% | +22% |

**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 management’s current expectations and assumptions. We and our representatives also may from time to time make written or oral forward−looking statements, including statements contained in our filings with the SEC and in our reports to stockholders.

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

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 for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current 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 or tax rates;
- 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 or other intangibles;
- Changes in accounting standards and the impact of significant accounting estimates;
- Product quality and safety issues, including recalls and product liability;
- Changes in customer 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;
- Benefit plan expenses due to changes in plan asset values and discount rates used to determine plan liabilities;
- 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 on pages 7 through 10 of Initial Report, which could also affect our future results.

We undertake no obligation to publicly revise any forward−looking statements to reflect future events or circumstances.



# Part II

## ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING (AS RESTATED)

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 Securities Exchange Act of 1934. 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 28, 2006. 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.

Based on our assessment using the criteria set forth by COSO in Internal Control—Integrated Framework, management originally included a report in our Annual Report on Form 10−K for the fiscal year ended May 28, 2006, that concluded that our internal control over financial reporting was effective as of May 28, 2006. We subsequently have determined that our policies and procedures requiring an annual impairment assessment of goodwill and other indefinite−lived intangible assets on a combined basis were ineffective for the separate annual impairment assessment of our brand intangibles, as required by Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. Accordingly, we concluded that we had a material weakness in our internal control over financial reporting as of May 28, 2006. As a result of the material weakness, there is more than a remote likelihood that a material misstatement in our annual or interim financial statements would not be prevented or detected. However, the material weakness did not result in a restatement of our consolidated financial statements presented in this Annual Report on Form 10−K/A.

Solely because of the material weakness in our internal control over financial reporting described above, management has, as of the date of this report, restated its assessment and has now concluded that our internal control over financial reporting was not effective as of May 28, 2006.

KPMG LLP, the independent registered public accounting firm that audited our consolidated financial statements included in the Annual Report on Form 10−K/A for the fiscal year ended May 28, 2006, has issued an audit report on management's restated assessment of the effectiveness of our internal control over financial reporting as of May 28, 2006.

S. W. Sanger
Chairman of the Board and
Chief Executive Officer

J. A. Lawrence
Vice Chairman and
Chief Financial Officer

January 5, 2007

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM REGARDING INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited management's restated assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting (as Restated), that General Mills, Inc. and subsidiaries did not maintain effective internal control over financial reporting as of May 28, 2006, because of the effect of the material weakness identified in management's assessment, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). General Mills' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment:

The Company's policies and procedures requiring an annual impairment assessment of goodwill and other indefinite−lived intangible assets on a combined basis were ineffective for the separate annual impairment assessment of its brand intangibles, as required by Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. Accordingly, the Company concluded that it had a material weakness in its internal control over financial reporting as of May 28, 2006. As a result of the material weakness, there is more than a remote likelihood that a material misstatement in the Company's annual or interim financial statements would not be prevented or detected.



As stated in the second and third paragraphs of Management's Report on Internal Control over Financial Reporting (as Restated), management's assessment of the effectiveness of the Company's internal control over financial reporting as of May 28, 2006 has been restated to reflect the impact of the aforementioned material weakness in internal control over financial reporting. Accordingly, we have restated our report on internal control over financial reporting to include this material weakness.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of General Mills, Inc. and subsidiaries as of May 28, 2006 and May 29, 2005 and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for each of the fiscal years in the three−year period ended May 28, 2006. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements for the fiscal year ended May 28, 2006, and this report does not affect our report dated July 27, 2006, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, management's restated assessment that General Mills, Inc. and subsidiaries did not maintain effective internal control over financial reporting as of May 28, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, General Mills, Inc. and subsidiaries has not maintained effective internal control over financial reporting as of May 28, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

KPMG LLP

Minneapolis, Minnesota
July 27, 2006, except as to the second and third paragraphs of Management's Report on Internal Control over Financial Reporting (as Restated) which are as of January 5, 2007

**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 and recommended to the full Board of Directors that they be included in the Annual Report. The Audit Committee also recommended to the Board of Directors that the independent auditors be reappointed for fiscal 2007, subject to ratification by the stockholders at the annual meeting.

S. W. Sanger
Chairman of the Board
and
Chief Executive Officer

J. A. Lawrence
Vice Chairman and
Chief Financial Officer

July 27, 2006

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON THE CONSOLIDATED FINANCIAL STATEMENTS AND RELATED FINANCIAL STATEMENT SCHEDULE**

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

We have audited the accompanying consolidated balance sheets of General Mills, Inc. and subsidiaries as of May 28, 2006 and May 29, 2005, and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for each of the fiscal years in the three−year period ended May 28, 2006. In connection with our audits of the consolidated financial statements we also have audited the accompanying financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of General Mills, Inc. and subsidiaries as of May 28, 2006 and May 29, 2005, and the results of their operations and their cash flows for each of the fiscal years in the three−year period ended May 28, 2006 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.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for the classification of shipping costs in the consolidated statements of earnings.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of General Mills' internal control over financial reporting as of May 28, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated July 27, 2006, except as to the second and third paragraphs of Management's Report on Internal Control over Financial Reporting (as restated) which are as of January 5, 2007, expressed an unqualified opinion on management's assessment of, and an adverse opinion on the effective operation of, internal control over financial reporting.

KPMG LLP

Minneapolis, Minnesota
July 27, 2006, except for the effects of the reclassifications
described in Note 1, as to which the date is January 16, 2007



# GENERAL MILLS, INC. AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF EARNINGS

| In Millions, Except per Share Data<br>Fiscal Year Ended | May 28, 2006 | May 29, 2005 | May 30, 2004 |
|---|---|---|---|
| Net Sales | $ 11,712 | $ 11,308 | $ 11,122 |
| Cost of Sales | 7,545 | 7,326 | 7,034 |
| Selling, General and Administrative Expenses | 2,179 | 1,998 | 2,052 |
| Restructuring and Other Exit Costs | 30 | 84 | 26 |
| Operating Profit | 1,958 | 1,900 | 2,010 |
| Divestitures (Gain) | – | (499) | – |
| Debt Repurchase Costs | – | 137 | – |

| | | | |
|---|---|---|---|
| Interest Expense, net | 399 | 455 | 508 |
| Earnings before Income Taxes and After−tax Earnings from Joint Ventures | 1,559 | 1,807 | 1,502 |
| Income Taxes | 538 | 661 | 526 |
| After−tax Earnings from Joint Ventures | 69 | 94 | 79 |
| Net Earnings | $ 1,090 | $ 1,240 | $ 1,055 |
| Earnings per Share – Basic | $ 3.05 | $ 3.34 | $ 2.82 |
| Earnings per Share – Diluted | $ 2.90 | $ 3.08 | $ 2.60 |
| Dividends per Share | $ 1.34 | $ 1.24 | $ 1.10 |

See accompanying notes to consolidated financial statements.



# GENERAL MILLS, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

| In Millions | May 28, 2006 | May 29, 2005 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 647 | $ 573 |
| Receivables | 1,076 | 1,034 |
| Inventories | 1,055 | 1,037 |
| Prepaid expenses and other current assets | 216 | 203 |
| Deferred income taxes | 182 | 208 |
| Total Current Assets | 3,176 | 3,055 |
| Land, Buildings and Equipment | 2,997 | 3,111 |
| Goodwill | 6,652 | 6,684 |
| Other Intangible Assets | 3,607 | 3,532 |
| Other Assets | 1,775 | 1,684 |
| Total Assets | $ 18,207 | $ 18,066 |
| **LIABILITIES AND EQUITY** | | |
| Current Liabilities: | | |
| Accounts payable | $ 708 | $ 735 |
| Current portion of long−term debt | 2,131 | 1,638 |
| Notes payable | 1,503 | 299 |
| Other current liabilities | 1,796 | 1,512 |
| Total Current Liabilities | 6,138 | 4,184 |
| Long−term Debt | 2,415 | 4,255 |
| Deferred Income Taxes | 1,822 | 1,851 |
| Other Liabilities | 924 | 967 |
| Total Liabilities | 11,299 | 11,257 |

| | | |
|---|---|---|
| Minority Interests | 1,136 | 1,133 |
| Stockholders' Equity: | | |
| Cumulative preference stock, none issued | – | – |
| Common stock, 502 shares issued | 50 | 50 |
| Additional paid−in capital | 5,737 | 5,691 |
| Retained earnings | 5,107 | 4,501 |
| Common stock in treasury, at cost, shares of 146 in 2006 and 133 in 2005 | (5,163) | (4,460) |
| Unearned compensation | (84) | (114) |
| Accumulated other comprehensive income | 125 | 8 |
| Total Stockholders' Equity | 5,772 | 5,676 |
| Total Liabilities and Equity | $ 18,207 | $ 18,066 |

See accompanying notes to consolidated financial statements.



# GENERAL MILLS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

| In Millions, Except per Share Data | $.10 Par Value Common Stock (One Billion Shares Authorized) Issued Shares | Issued Amount | Treasury Shares | Treasury Amount | Retained Earnings | Unearned Compensation | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at May 25, 2003** | 502 | $ 5,684 | (132) | $ (4,203) | $ 3,079 | $ (43) | $ (342) | $ 4,175 |
| Comprehensive Income: | | | | | | | | |
| Net earnings | | | | | 1,055 | | | 1,055 |
| Other comprehensive income, net of tax: | | | | | | | | |
| Net change on hedge derivatives | | | | | | | 101 | 101 |
| Net change on securities | | | | | | | (10) | (10) |
| Foreign currency translation | | | | | | | 75 | 75 |
| Minimum pension liability adjustment | | | | | | | 32 | 32 |
| Other comprehensive income | | | | | | | 198 | 198 |
| Total comprehensive income | | | | | | | | 1,253 |
| Cash dividends declared ($1.10 per share) | | | | | (412) | | | (412) |
| Stock compensation plans (includes income tax benefits of $5) | – | (4) | 10 | 306 | | | | 302 |
| Shares purchased | | | (1) | (24) | | | | (24) |
| Unearned compensation related to restricted stock awards | | | | | | (77) | | (77) |
| Earned compensation and other | | | | | | 31 | | 31 |
| **Balance at May 30, 2004** | 502 | $ 5,680 | (123) | $ (3,921) | $ 3,722 | $ (89) | $ (144) | $ 5,248 |
| Comprehensive Income: | | | | | | | | |
| Net earnings | | | | | 1,240 | | | 1,240 |
| Other comprehensive income, net of tax: | | | | | | | | |
| Net change on hedge derivatives | | | | | | | 99 | 99 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Foreign currency translation | | | | | | | 75 | 75 |
| Minimum pension liability adjustment | | | | | | | (22) | (22) |
| Other comprehensive income | | | | | | | 152 | 152 |
| Total comprehensive income | | | | | | | | 1,392 |
| Cash dividends declared ($1.24 per share) | | | | | (461) | | | (461) |
| Stock compensation plans (includes income tax benefits of $62) | – | 104 | 7 | 232 | | | | 336 |
| Shares purchased | | | (17) | (771) | | | | (771) |
| Forward purchase contract fees | – | (43) | | | | | | (43) |
| Unearned compensation related to restricted stock awards | | | | | | (66) | | (66) |
| Earned compensation and other | | | | | | 41 | | 41 |
| **Balance at May 29, 2005** | 502 | $ 5,741 | (133) | $ (4,460) | $ 4,501 | $ (114) | $ 8 | $ 5,676 |
| Comprehensive Income: | | | | | | | | |
| Net earnings | | | | | 1,090 | | | 1,090 |
| Other comprehensive income, net of tax: | | | | | | | | |
| Net change on hedge derivatives | | | | | | | 20 | 20 |
| Foreign currency translation | | | | | | | 73 | 73 |
| Minimum pension liability adjustment | | | | | | | 24 | 24 |
| Other comprehensive income | | | | | | | 117 | 117 |
| Total comprehensive income | | | | | | | | 1,207 |
| Cash dividends declared ($1.34 per share) | | | | | (484) | | | (484) |
| Stock compensation plans (includes income tax benefits of $41) | – | 46 | 6 | 189 | | | | 235 |
| Shares purchased | | | (19) | (892) | | | | (892) |
| Unearned compensation related to restricted stock awards | | | | | | (17) | | (17) |
| Earned compensation and other | | | | | | 47 | | 47 |
| **Balance at May 28, 2006** | 502 | $ 5,787 | (146) | $ (5,163) | $ 5,107 | $ (84) | $ 125 | $ 5,772 |

See accompanying notes to consolidated financial statements.



# GENERAL MILLS, INC. AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF CASH FLOWS

| In Millions<br>Fiscal Year Ended | May 28, 2006 | May 29, 2005 | May 30, 2004 |
|---|---|---|---|
| **Cash Flows – Operating Activities** | | | |
| Net earnings | $ 1,090 | $ 1,240 | $ 1,055 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation and amortization | 424 | 443 | 399 |
| After−tax earnings of joint ventures | (69) | (94) | (79) |
| Deferred income taxes | 26 | 9 | 109 |
| Changes in current assets and liabilities | 184 | 258 | (186) |
| Distribution of earnings from joint ventures | 77 | 83 | 60 |
| Tax benefit on exercised options | 41 | 62 | 63 |
| Pension and other postretirement costs | (74) | (70) | (21) |
| Restructuring and other exit costs | 30 | 84 | 26 |
| Divestitures (gain) | – | (499) | – |
| Debt repurchase costs | – | 137 | – |

| | | | |
|---|---|---|---|
| Other, net | 119 | 141 | 95 |
| Net Cash Provided by Operating Activities | 1,848 | 1,794 | 1,521 |
| **Cash Flows – Investing Activities** | | | |
| Purchases of land, buildings and equipment | (360) | (434) | (653) |
| Investments in businesses | (26) | – | (10) |
| Investments in affiliates, net of investment returns | 1 | 1 | (27) |
| Purchases of marketable securities | – | (1) | (7) |
| Proceeds from sale of marketable securities | 1 | 33 | 129 |
| Proceeds from disposal of land, buildings and equipment | 11 | 24 | 36 |
| Proceeds from disposition of businesses | – | 799 | – |
| Other, net | 4 | (9) | 2 |
| Net Cash Provided (Used) by Investing Activities | (369) | 413 | (530) |
| **Cash Flows – Financing Activities** | | | |
| Change in notes payable | 1,197 | (1,057) | (1,023) |
| Issuance of long−term debt | – | 2 | 576 |
| Payment of long−term debt | (1,386) | (1,115) | (248) |
| Proceeds from issuance of preferred membership interests of subsidiary | – | 835 | – |
| Common stock issued | 157 | 195 | 192 |
| Purchases of common stock for treasury | (885) | (771) | (24) |
| Dividends paid | (485) | (461) | (413) |
| Other, net | (3) | (13) | (3) |
| Net Cash Used by Financing Activities | (1,405) | (2,385) | (943) |
| Increase (Decrease) in Cash and Cash Equivalents | 74 | (178) | 48 |
| Cash and Cash Equivalents – Beginning of Year | 573 | 751 | 703 |
| Cash and Cash Equivalents – End of Year | $ 647 | $ 573 | $ 751 |
| **Cash Flow from Changes in Current Assets and Liabilities:** | | | |
| Receivables | $ (18) | $ (9) | $ (22) |
| Inventories | (6) | 30 | 24 |
| Prepaid expenses and other current assets | (7) | 9 | (15) |
| Accounts payable | (28) | (35) | (151) |
| Other current liabilities | 243 | 263 | (22) |
| Changes in Current Assets and Liabilities | $ 184 | $ 258 | $ (186) |

See accompanying notes to consolidated financial statements.



# GENERAL MILLS, INC. AND SUBSIDIARIES
# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Reclassifications

At the beginning of fiscal 2007, we made certain changes in our reporting of financial information. The effect of these reclassifications on our historical consolidated financial statements are reflected herein and had no impact on our consolidated net earnings or earnings per share.

We made the following changes in our reporting of financial information commencing in the first quarter of fiscal 2007:

- We made a change in accounting principle to classify shipping costs associated with the distribution of finished products to our customers as cost of sales. We previously recorded these costs in selling, general and administrative expense ("SG&A"). We made this change in principle because we believe the classification of these shipping costs in cost of sales better reflects the cost of producing and distributing our products and aligns our external financial reporting with the results we use internally to evaluate segment operating performance. The impact of this change in principle was an increase to cost of sales of $474 million in fiscal 2006, $388 million in fiscal 2005, and $352 million in fiscal 2004, and a corresponding decrease to SG&A.

- We shifted sales responsibility for several customers from our Bakeries and Foodservice segment to our U.S. Retail segment. Net sales and segment operating profit for these two segments have been adjusted to report the results from shifted businesses with the appropriate segment. The impact of this shift was a decrease in net sales of our Bakeries and Foodservice segment and an increase in net sales of our U.S. Retail segment of $55 million in fiscal 2006, $60 million in fiscal 2005, and $37 million in fiscal 2004. The impact of this shift was a decrease of Bakeries and Foodservice segment operating profit and an increase of U.S. Retail segment operating profit of $22 million in fiscal 2006, $26 million in fiscal 2005, and $15 million in fiscal 2004.

- We also reclassified (i) certain trade−related costs and customer allowances as cost of sales or SG&A (previously recorded as reductions of net sales), (ii) certain liabilities, including trade and consumer promotion accruals, from accounts payable to other current liabilities, (iii) certain distributions from joint ventures as operating cash flows (previously reported as investing cash flows), and (iv) royalties from a joint venture to after−tax earnings from joint ventures (previously recorded as a reduction of SG&A). These reclassifications were not material individually or in the aggregate.

## 2. Summary of Significant Accounting Policies

***Basis of Presentation*** Our consolidated financial statements include the accounts of General Mills, Inc. and all subsidiaries in which it has a controlling financial interest. Intercompany transactions and accounts are eliminated in consolidation. Certain prior years' amounts have been reclassified to conform to the current year presentation.

Our fiscal year ends on the last Sunday in May. Fiscal years 2006 and 2005 each consisted of 52 weeks, and fiscal 2004 consisted of 53 weeks. Our International segment, with the exception of Canada and our export operations, is reported for the 12 calendar months ended April 30.

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

***Inventories*** Most U.S. inventories are valued at the lower of cost, using the last−in, first−out (LIFO) method, or market. Grain inventories are valued at market. The balance of the U.S. inventories and inventories of consolidated operations outside of the U.S. 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 the customer.

***Land, Buildings, Equipment and Depreciation*** Land is recorded at historical cost. Buildings and equipment are recorded at historical cost and depreciated over estimated useful lives, primarily using the straight−line method. Ordinary maintenance and repairs are charged to operating costs. Buildings are usually depreciated over 40 to 50 years, and equipment is usually depreciated over three to 15 years. Accelerated depreciation methods generally are used for income tax purposes. 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.

Long−lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount 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 are identifiable and 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 discounted cash flows or independent appraisals as appropriate.

***Goodwill and Other Intangible Assets*** Goodwill represents the difference between the purchase prices of acquired companies and the related fair values of net assets acquired. Goodwill is not subject to amortization and is tested for impairment annually for each of our reporting units and whenever events or changes in circumstances indicate that an impairment may have occurred. Impairment testing compares the carrying amount of goodwill for a reporting unit with its fair value. Fair value is estimated based on discounted cash flows. When the carrying amount of goodwill exceeds its fair value, an impairment has occurred. We have completed our annual impairment testing and determined none of our goodwill is impaired.

The costs of patents, copyrights and other intangible assets with finite lives are amortized over their estimated useful lives. Intangibles with indefinite lives, principally brands, are carried at cost. Finite and 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. An impairment loss would be recognized when estimated undiscounted future cash flows are less than the carrying amount of the intangible. Measurement of an impairment loss would be based on the excess of the carrying amount of the intangible over its fair value. We have completed our annual impairment testing and determined none of our other intangible assets are impaired.

***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 also 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.

***Variable Interest Entities*** At May 28, 2006, we had invested in four variable interest entities (VIEs). We are the primary beneficiary (PB) of General Mills Capital, Inc. (GM Capital), a subsidiary that we consolidate as set forth in Note Nine. We also have an interest in a contract manufacturer at our former facility in Geneva, Illinois. Even though we are the PB, we have not consolidated this entity because it is not material to our results of operations, financial condition, or liquidity at May 28, 2006. This entity had property and equipment of $50 million and long−term debt of $50 million at May 28, 2006. We are not the PB of the remaining two VIEs. Our maximum exposure to loss from these VIEs is limited to the $150 million minority interest in GM Capital, the contract manufacturer's debt and our $6 million equity investments in the remaining two VIEs.

***Revenue Recognition*** We recognize sales revenue upon acceptance of the shipment by our customers. Sales are reported net of consumer coupon, trade promotion and other costs, including estimated returns. Coupons are



expensed when distributed based on estimated redemptions. Trade promotions are expensed based on estimated participation and performance levels for offered programs. 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 saleable condition for redistribution to other customers or outlets. Returns are expensed as reductions of net sales.

***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 are charged against earnings in the year incurred.

***Foreign Currency Translation*** Results of foreign operations are translated into U.S. dollars using the average exchange rates each month. Assets and liabilities of these operations are translated at the period−end exchange rates, and the differences from historical exchange rates are reflected within Accumulated Other Comprehensive Income in Stockholders' Equity as cumulative translation adjustments.

***Derivative Instruments*** We use derivatives primarily to hedge our exposure to changes in foreign exchange rates, interest rates and commodity prices. All derivatives are recognized on the Condolidated Balance Sheets at fair value based on quoted market prices or management's 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 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 other comprehensive income 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 other comprehensive income are reclassified to earnings at that time. Any ineffectiveness is recognized in earnings in the current period.

***Stock−based Compensation*** We use the intrinsic value method for measuring the cost of compensation paid in our common stock. This method defines our cost as the excess of the stock's market value at the time of the grant over the amount that the employee is required to pay. Our stock option plans require that the employee's payment (i.e., exercise price) be at least the market value as of the grant date.

Restricted share awards, including restricted stock and restricted stock units, are measured at the fair market value of our stock on the date of the award, and are initially recorded in Stockholders' Equity as unearned compensation, net of estimated forfeitures. Unearned compensation is amortized to compensation expense on a straight−line basis over the requisite service period.

The following table illustrates the pro forma effect on net earnings and earnings per share if we had applied the fair value recognition provisions of Statement of Financial Accounting Standard (SFAS) No. 123, (SFAS 123) "Accounting for Stock−Based Compensation," to all employee stock−based compensation, net of estimated forfeitures.

| In Millions, Except per Share Data, Fiscal Year Ended | May 28, 2006 | May 29, 2005 | May 30, 2004 |
|---|---|---|---|
| Net earnings, as reported | $ 1,090 | $ 1,240 | $ 1,055 |
| Add: After−tax stock−based employee compensation expense included in reported net earnings | 28 | 24 | 17 |
| Deduct: After−tax stock−based employee compensation expense determined under fair value requirements of SFAS 123 | (48) | (62) | (67) |
| Pro forma net earnings | $ 1,070 | $ 1,202 | $ 1,005 |
| Earnings per share: | | | |

| | | | |
|---|---|---|---|
| Basic – as reported | $ 3.05 | $ 3.34 | $ 2.82 |
| Basic – pro forma | $ 2.99 | $ 3.24 | $ 2.68 |
| Diluted – as reported | $ 2.90 | $ 3.08 | $ 2.60 |
| Diluted – pro forma | $ 2.84 | $ 2.99 | $ 2.49 |

The weighted−average grant date fair values of the employee stock options granted were estimated as $8.04 in fiscal 2006, $8.32 in fiscal 2005, and $8.54 in fiscal 2004 using the Black−Scholes option−pricing model with the following assumptions:

| Fiscal Year | 2006 | 2005 | 2004 |
|---|---|---|---|
| Risk−free interest rate | 4.3% | 4.0% | 3.9% |
| Expected life | 7 years | 7 years | 7 years |
| Expected volatility | 20.0% | 21.0% | 21.0% |
| Expected dividend growth rate | 10.2% | 9.8% | 10.0% |

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(Revised) “Share−Based Payment” (SFAS 123R), which generally requires public companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant−date fair value and to recognize this cost over the period during which the employee is required to provide service in exchange for the award. The standard is effective for public companies for annual periods beginning after June 15, 2005, with several transition options regarding prospective versus retrospective application. We will adopt SFAS 123R in the first quarter of fiscal 2007, using the modified prospective method. Accordingly, prior year results will not be restated, but fiscal 2007 results will



be presented as if we had applied the fair value method of accounting for stock−based compensation from the beginning of fiscal 1997. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as currently required, thereby reducing net operating cash flows and increasing net financing cash flows in periods following adoption. While those amounts cannot be estimated for future periods, the amount of operating cash flows generated in prior periods for such excess tax deductions was $41 million for fiscal 2006, $62 million for fiscal 2005 and $63 million for fiscal 2004.

Certain equity−based compensation plans contain provisions that accelerate vesting of awards upon retirement, disability or death of eligible employees and directors. For the periods presented, we generally recognized stock compensation expense over the stated vesting period of the award, with any unamortized expense recognized immediately if an acceleration event occurred. SFAS No. 123R specifies that a stock−based award is vested when the employee’s retention of the award is no longer contingent on providing subsequent service. Accordingly, beginning in fiscal 2007, we will prospectively revise our expense attribution method so that 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.

***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. Actual results could differ from our estimates.

***New Accounting Standards*** The FASB ratified in October 2004, Emerging Issues Task Force Issue No. 04−8, “The Effect of Contingently Convertible Debt on Diluted Earnings per Share” (EITF 04−8). EITF 04−8 was effective for us in the third quarter of fiscal 2005. The adoption of EITF 04−8 increased diluted shares outstanding to give effect to shares that were contingently issuable related to our zero coupon convertible debentures issued in October 2002. Also, net earnings used for earnings per share calculations were adjusted, using the if−converted method. See Note Twelve.

In the second quarter of fiscal 2006, we adopted SFAS No. 153, “Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29.” SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with an exception for exchanges that do not have commercial substance. The adoption of SFAS 153 did not have any impact on our results of operations or financial condition.

In March 2005, the FASB issued FASB Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations” (FIN 47). FIN 47 requires that liabilities be recognized for the fair value of a legal obligation to perform asset retirement activities that are conditional on a future event if the amount can be reasonably estimated. We adopted FIN 47 in the fourth quarter of fiscal 2006 and it did not have a material impact on our results of operations or financial condition.

## 3. Acquisitions and Divestitures

On March 3, 2006, we acquired Elysèes Consult S.A., the franchise operator of a *Häagen−Dazs* shop in France. On November 21, 2005, we acquired Croissant King, a producer of frozen pastry products in Australia. On October 31, 2005, we acquired a controlling financial interest in Pinedale Holdings PTE. Limited, an operator of *Häagen−Dazs* cafes in Singapore and Malaysia. The aggregate purchase price of our fiscal 2006 acquisitions was $26 million. The pro forma effect of these acquisitions was not material.

On February 28, 2005, Snack Ventures Europe (SVE), our snacks joint venture with PepsiCo, Inc., was terminated and our 40.5 percent interest was redeemed. On April 4, 2005, we sold our Lloyd's barbecue business to Hormel Foods Corporation. We received $799 million in cash proceeds from these dispositions and recorded $499 million in gains in fiscal 2005.

## 4. Restructuring and Other Exit Costs

In fiscal 2006, we recorded restructuring and other exit costs of $30 million pursuant to approved plans consisting of: $13 million related to the closure of our Swedesboro, New Jersey plant; $6 million related to the closure of a production line at our Montreal, Quebec plant; $4 million related to restructuring actions at our Allentown, Pennsylvania plant; $3 million of asset impairment charges for one of our plants; and $4 million related primarily to fiscal 2005 initiatives. The fiscal 2006 restructuring charges included $17 million to write down assets to fair value, $7 million of severance costs for 425 employees being terminated, and $6 million of other exit costs. The carrying value of the assets written down was $18 million. The fair values of the assets written down were determined using discounted cash flows.

The fiscal 2006 initiatives were undertaken to increase asset utilization and reduce manufacturing costs. The actions included decisions to: close our leased frozen dough foodservice plant in Swedesboro, New Jersey, affecting 101 employees; shut down a portion of our frozen dough foodservice plant in Montreal, Quebec, affecting 77 employees; realign and modify product and manufacturing



capabilities at our frozen waffle plant in Allentown, Pennsylvania, affecting 72 employees; and complete the fiscal 2005 initiative to relocate our frozen baked goods line from our plant in Chelsea, Massachusetts, to another facility, affecting 175 employees.

In fiscal 2005, we recorded restructuring and other exit costs of $84 million pursuant to approved plans, consisting of: $74 million of charges associated with fiscal 2005 supply chain initiatives; $3 million of charges associated with Bakeries and Foodservice severance charges resulting from fiscal 2004 decisions; and $7 million of charges associated with restructuring actions prior to fiscal 2005. The charges from the fiscal 2005 initiatives included severance and pension and postretirement curtailment costs of $14 million for 551 employees being terminated, $20 million to write off assets, $30 million for the write−down of assets to their net realizable value and $10 million of other exit costs. The carrying value of the assets written down was $36 million. Net realizable value was determined by independent market analysis.

The fiscal 2005 initiatives were undertaken to further increase asset utilization and reduce manufacturing and sourcing costs, resulting in decisions regarding plant closures and production realignment. The actions included decisions to: close our flour milling plant in Vallejo, California, affecting 43 employees; close our par−baked bread plant in Medley, Florida, affecting 42 employees; relocate bread production from our Swedesboro, New Jersey plant, affecting 110 employees; relocate a portion of our cereal production from Cincinnati, Ohio, affecting 45 employees; close our snacks foods plant in Iowa City, Iowa, affecting 83 employees; close our dry mix production at Trenton, Ontario, affecting 53 employees; and relocate our frozen baked goods line from our plant in Chelsea, Massachusetts to another facility.

These fiscal 2005 supply chain actions also resulted in certain associated expenses in fiscal 2005, primarily resulting from adjustments to the depreciable life of the assets necessary to reflect the shortened asset lives which coincided with the final production dates at the Cincinnati and Iowa City plants. These associated expenses were recorded as cost of sales and totaled $18 million.

In fiscal 2004, we recorded restructuring and other exit costs of $26 million pursuant to approved plans. These costs included: a severance charge for 142 employees being terminated as a result of a plant closure in the Netherlands; costs related to a plant closure in Brazil, including a severance charge for 201 employees; costs for the closure of our tomato canning facility in Atwater, California, including severance costs for 47 employees; adjustments of costs associated with previously announced closures of manufacturing facilities; and a severance charge for 132 employees, related primarily to actions in our Bakeries and Foodservice organization. The carrying value of the assets written down was $3 million.

The analysis of our restructuring and other exit costs is as follows:

| In Millions | Severance | Asset Write−down | Pension and Postretirement Curtailment Cost | Other | Total |
|---|---|---|---|---|---|
| Reserve balance at May 25, 2003 | $ 10 | $ 16 | $ – | $ 11 | $ 37 |
| 2004 Charges | 16 | 4 | – | 6 | 26 |
| Utilized in 2004 | (13) | (18) | – | (9) | (40) |
| Reserve balance at May 30, 2004 | 13 | 2 | – | 8 | 23 |
| 2005 Charges | 12 | 51 | 4 | 17 | 84 |
| Utilized in 2005 | (16) | (53) | (4) | (16) | (89) |
| Reserve Balance at May 29, 2005 | 9 | – | – | 9 | 18 |
| 2006 Charges | 7 | 17 | – | 6 | 30 |
| Utilized in 2006 | (8) | (17) | – | (8) | (33) |
| Reserve Balance at May 28, 2006 | $ 8 | $ – | $ – | $ 7 | $ 15 |

### 5. Investments in Joint Ventures

We have a 50 percent equity interest in Cereal Partners Worldwide (CPW), a joint venture with Nestlé S.A. that manufactures and markets cereal products outside the United States and Canada. We have guaranteed a portion of CPW’s debt. See Note Sixteen. We have a 50 percent equity interest in 8th Continent, LLC, a domestic joint venture with DuPont to develop and market soy−based products. We have 50 percent equity interests in the following joint ventures for the manufacture, distribution and marketing of *Häagen−Dazs* frozen ice cream products and novelties: Häagen−Dazs Japan K.K.; Häagen−Dazs Korea Company Limited; and Häagen−Dazs Marketing & Distribution (Philippines) Inc. We have a 49 percent equity interest in Häagen−Dazs Distributors (Thailand) Company Limited. We also have a 50 percent equity interest in Seretram, a joint venture with Co−op de Pau for the production of *Green Giant* canned corn in France. In May 2006, we acquired a controlling financial interest in our Häagen−Dazs joint venture in the Philippines for less than $1 million.

Fiscal 2005 and fiscal 2004 results of operations include our share of the after−tax earnings of SVE through the date of its termination on February 28, 2005.

On July 14, 2006, CPW acquired the Uncle Tobys cereal business in Australia for approximately $385 million. This business had revenues of approximately $100 million for the fiscal year ended June 30, 2006. We funded our 50 percent share of the purchase price by making an additional equity contribution in CPW from cash generated from our international operations, including our international joint ventures.

In February 2006, CPW announced a restructuring of its manufacturing plants in the United Kingdom. Our after−tax earnings from joint ventures were reduced by $8 million for our share of the restructuring costs, primarily accelerated depreciation and severance, incurred in fiscal 2006.

Our cumulative investment in these joint ventures was $186 million at the end of fiscal 2006 and $211 million at the end of fiscal 2005. We made aggregate investments in the joint ventures of $7 million in fiscal 2006, $15 million in fiscal 2005 and $31 million in fiscal 2004. We received aggregate dividends from the joint ventures of $77 million in fiscal 2006, $83 million in fiscal 2005 and $60 million in fiscal 2004.

Results from our CPW joint venture are reported as of and for the twelve months ended March 31. The Häagen−Dazs and Seretram joint venture results are reported as of and for the twelve months ended April 30. 8th Continent’s results are presented on the same basis as our fiscal year.

Summary combined financial information for the joint ventures (including SVE through the date of its termination on February 28, 2005) on a 100 percent basis follows:

| In Millions, Fiscal Year Ended | 2006 | 2005 | 2004 |
|---|---|---|---|
| Net Sales | $ 1,796 | $ 2,652 | $ 2,625 |

| | | | |
|---|---|---|---|
| Gross Margin | 770 | 1,184 | 1,180 |
| Earnings before Income Taxes | 157 | 231 | 205 |
| Earnings after Income Taxes | 120 | 184 | 153 |

Gross margin is defined as net sales less cost of sales.

| In Millions, At End of Fiscal Year | 2006 | 2005 |
|---|---|---|
| Current Assets | $ 634 | $ 604 |
| Noncurrent Assets | 578 | 612 |
| Current Liabilities | 756 | 695 |
| Noncurrent Liabilities | 6 | 7 |



## 6. Goodwill and Intangible Assets

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

| In Millions | May 28, 2006 | May 29, 2005 |
|---|---|---|
| Goodwill | $ 6,652 | $ 6,684 |
| Other Intangible Assets: | | |
| Intangible assets not subject to amortization: | | |
| Brands | 3,595 | 3,516 |
| Pension intangible | – | 3 |
| Total intangible assets not subject to amortization | 3,595 | 3,519 |
| Intangible assets subject to amortization: | | |
| Patents, trademarks and other finite−lived intangibles | 19 | 19 |
| Less accumulated amortization | (7) | (6) |
| Total intangible assets subject to amortization | 12 | 13 |
| Total Other Intangible Assets | 3,607 | 3,532 |
| Total Goodwill and Other Intangible Assets | $ 10,259 | $ 10,216 |

Brand intangibles increased by $79 million, as a result of foreign currency translation.

The changes in the carrying amount of goodwill for fiscal 2004, 2005 and 2006 are as follows:

| In Millions | U.S. Retail | International | Bakeries and Foodservice | Total |
|---|---|---|---|---|
| Balance at May 25, 2003 | $ 5,024 | $ 421 | $ 1,205 | $ 6,650 |
| Goodwill acquired | – | 14 | – | 14 |
| Other activity, including translation | – | 20 | – | 20 |
| Balance at May 30, 2004 | 5,024 | 455 | 1,205 | 6,684 |
| Goodwill acquired | – | 1 | – | 1 |
| Other activity, including translation | (22) | 25 | (4) | (1) |
| Balance at May 29, 2005 | 5,002 | 481 | 1,201 | 6,684 |
| Goodwill acquired | – | 15 | – | 15 |
| Deferred tax adjustment related to Pillsbury acquisition | (42) | – | – | (42) |
| Other activity, including translation | – | (5) | – | (5) |

| | | | | |
|---|---|---|---|---|
| Balance at May 28, 2006 | $ 4,960 | $ 491 | $ 1,201 | $ 6,652 |

Future purchase price adjustments to goodwill may occur upon the resolution of certain income tax accounting matters. See Note Fifteen.

### 7. Financial Instruments and Risk Management Activities

***Financial Instruments*** The carrying values of cash and cash equivalents, receivables, accounts payable, other current liabilities and notes payable approximate fair value. Marketable securities are carried at fair value. As of May 28, 2006, 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 |
|---|---|---|---|---|
| Held to maturity: | | | | |
| Equity securities | $ 2 | $ 2 | $ – | $ – |
| Total | $ 2 | $ 2 | $ – | $ – |
| Available for sale: | | | | |
| Debt securities | $ 20 | $ 20 | $ – | $ – |
| Equity securities | 4 | 8 | 4 | – |
| Total | $ 24 | $ 28 | $ 4 | $ – |

Earnings include realized gains from sales of available−for−sale marketable securities of less than $1 million in fiscal 2006, $2 million in fiscal 2005 and $20 million in fiscal 2004. Gains and losses are determined by specific identification. The aggregate unrealized gains and losses on available−for−sale securities, net of tax effects, are classified in Accumulated Other Comprehensive Income within Stockholders' Equity. At May 28, 2006, we owned twenty marketable securities with a fair market value less than cost. The fair market value of these securities was $0.3 million below their cost.

Scheduled maturities of our marketable securities are as follows:

| | Held to Maturity | | Available for Sale | |
|---|---|---|---|---|
| In Millions | Cost | Market Value | Cost | Market Value |
| Under one year (current) | $ – | $ – | $ 5 | $ 5 |
| From 1 to 3 years | – | – | 5 | 5 |
| From 4 to 7 years | – | – | 2 | 2 |
| Over 7 years | – | – | 8 | 8 |
| Equity securities | 2 | 2 | 4 | 8 |
| Total | $ 2 | $ 2 | $ 24 | $ 28 |

Cash, cash equivalents and marketable securities totaling $48 million as of May 28, 2006, and $63 million as of May 29, 2005, were pledged as collateral. These assets are primarily pledged as collateral for certain derivative contracts.

The fair values and carrying amounts of long−term debt, including the current portion, were $4,566 million and $4,546 million at May 28, 2006, and $6,074 million and $5,893 million at May 29, 2005. 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 business 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.

**Interest Rate Risk** We are exposed to interest rate volatility with regard to existing variable−rate debt and planned future issuances of fixed−rate debt. We use a combination of interest rate swaps and forward−starting swaps to reduce interest rate volatility and to achieve a desired proportion of variable versus fixed−rate debt, based on current and projected market conditions.

Variable Interest Rate Exposures – Except as discussed below, variable−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 are reclassified into earnings over the life of the associated debt. The amount of hedge ineffectiveness was less than $1 million in fiscal 2006, 2005 and 2004.

Fixed Interest Rate Exposures – Fixed−to−variable 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 interest expense. The amount of hedge ineffectiveness was less than $1 million in fiscal 2006, 2005 and 2004.

In anticipation of the Pillsbury acquisition and other financing needs, we entered into pay−fixed interest rate swap contracts during fiscal 2001 and fiscal 2002 totaling $7.1 billion to lock in our interest payments on the associated debt. During fiscal 2004, $750 million of these swaps matured. In fiscal 2005, $2 billion of these swaps matured. At May 28, 2006, we still owned $3.15 billion of Pillsbury−related pay−fixed swaps that were previously neutralized with offsetting pay−floating swaps in fiscal 2002. At May 28, 2006, $500 million of our pay−floating interest rate swaps were designated as a fair value hedge of our 2.625 percent notes due October 2006.

In May 2006, we entered into a $100 million pay−fixed, forward−starting interest rate swap with a fixed rate of 5.7 percent in anticipation of fixed−rate debt refinancing probable of occurring in fiscal 2007. Subsequent to May 28, 2006, we entered into an additional $600 million of pay−fixed, forward−starting interest rate swaps with an average fixed rate of 5.7 percent.

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 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 variable rates are based on rates as of the end of the reporting period.

| In Millions | May 28, 2006 | May 29, 2005 |
|---|---|---|
| Pay−floating swaps – notional amount | $ 3,770 | $ 3,795 |
| Average receive rate | 4.8% | 4.8% |
| Average pay rate | 5.1% | 3.1% |
| Pay−fixed swaps – notional amount | $ 3,250 | $ 3,150 |
| Average receive rate | 5.1% | 3.1% |
| Average pay rate | 6.8% | 6.9% |

The swap contracts mature at various dates from 2007 to 2015, as follows:

| In Millions<br>Fiscal Year Maturity Date | Pay Floating | Pay Fixed |
|---|---|---|
| 2007 | $ 1,923 | $ 1,400 |
| 2008 | 22 | – |
| 2009 | 20 | – |
| 2010 | 20 | – |
| 2011 | 18 | – |
| Beyond 2011 | 1,767 | 1,850 |
| Total | $ 3,770 | $ 3,250 |

**Foreign Exchange Transaction Risk** We are exposed to fluctuations in foreign currency cash flows related primarily to third−party purchases, intercompany product shipments and intercompany loans. Our primary U.S. dollar exchange rate exposures are with the Canadian dollar, the euro, the Australian dollar, the Mexican peso and the British pound. Forward contracts of generally less than 12 months duration are used to hedge some of these risks. Hedge effectiveness is assessed based on changes in forward rates. The amount of hedge ineffectiveness was $1 million or less in fiscal 2006, 2005 and 2004.

**Commodity Price Risk** We are exposed to price fluctuations primarily as a result of anticipated purchases of ingredient and packaging materials. The principal raw materials that we use are cereal grains, sugar, dairy products, vegetables, fruits, meats, vegetable oils, and other agricultural products as well as paper and plastic packaging materials, operating supplies and energy. We use a combination of long cash positions with suppliers, exchange−traded futures and option contracts and over−the−counter hedging mechanisms to reduce price fluctuations in a desired percentage of forecasted purchases over a period of less than two years. Except as discussed below, commodity derivatives are accounted for as cash flow hedges, with effectiveness assessed based on changes in futures prices. The amount of hedge ineffectiveness was a gain of $3 million in fiscal 2006, and were losses of $1 million or less in fiscal 2005 and 2004.



**Other Risk Management Activities** We enter into certain derivative contracts in accordance with our risk management strategy that do not meet the criteria for hedge accounting, including those in our grain merchandising operation, certain foreign currency derivatives and offsetting interest rate swaps as discussed above. Even though they may not qualify as hedges, these derivatives have the economic impact of largely mitigating the associated risks. These derivatives were not acquired for trading purposes and are recorded at fair value with changes in fair value recognized in earnings each period.

Our grain merchandising operation provides us efficient access to and more informed knowledge of various commodities markets. This operation uses futures and options to hedge its net inventory position to minimize market exposure. As of May 28, 2006, our grain merchandising operation had futures and options contracts that essentially hedged its net inventory position. None of the contracts extended beyond May 2007. All futures contracts and options are exchange−based instruments with ready liquidity and determinable market values. Neither the results of operations nor the year−end positions of our grain merchandising operation were material.

Unrealized losses from cash flow hedges recorded in Accumulated Other Comprehensive Income as of May 28, 2006, totaled $92 million, primarily related to interest rate swaps we entered into in contemplation of future borrowings and other financing requirements (primarily related to the Pillsbury acquisition), which are being reclassified into interest expense over the lives of the hedged forecasted transactions. The majority of the remaining gains and losses from cash flow hedges recorded in Accumulated Other Comprehensive Income as of May 28, 2006, were related to foreign currency contracts. The net amount of the gains and losses in Accumulated Other Comprehensive Income as of May 28, 2006, that is expected to be reclassified into earnings within the next twelve months is $39 million in expense. See Note Eight for the impact of these reclassifications on interest expense.

***Concentrations of Credit Risk*** 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 credit risk of nonperformance by these counterparties; however, we have not incurred a material loss nor are losses anticipated. We also enter into commodity futures transactions through various regulated exchanges.

Our top five customers in the U.S. Retail segment account for 47 percent of the segment's net sales. Payment terms vary depending on product categories and markets. We establish and monitor credit limits to manage our credit risk. We have not incurred a material loss nor are any such losses anticipated.

## 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:

| Dollars In Millions | May 28, 2006 Notes Payable | May 28, 2006 Weighted Average Interest Rate | May 29, 2005 Notes Payable | May 29, 2005 Weighted Average Interest Rate |
|---|---|---|---|---|
| U.S. commercial paper | $ 713 | 5.1% | $ 125 | 3.1% |
| Euro commercial paper | 462 | 5.1 | – | – |
| Financial institutions | 328 | 5.7 | 174 | 7.2 |
| Total Notes Payable | $ 1,503 | 5.2% | $ 299 | 5.5% |

To ensure availability of funds, we maintain bank credit lines sufficient to cover our outstanding short−term borrowings. As of May 28, 2006, we had $2.95 billion in committed lines and $335 million in uncommitted lines. Our committed lines consist of a $750 million five−year credit facility expiring in January 2009, a $1.1 billion 364−day credit facility expiring in October 2006 and a new $1.1 billion five−year credit facility expiring in October 2010.

***Long−term Debt*** On October 28, 2005, we repurchased a significant portion of our zero coupon convertible debentures pursuant to the put rights of the holders for an aggregate purchase price of $1.33 billion, including $77 million of accreted original issue discount classified within financing cash flows in the Consolidated Statement of Cash Flows. These debentures had an aggregate principal amount at maturity of $1.86 billion. We incurred no gain or loss from this repurchase. As of May 28, 2006, there were $371 million in aggregate principal amount at maturity of the debentures outstanding, or $268 million of accreted value. We used proceeds from the issuance of commercial paper to fund our repurchase of the debentures. We have also reclassified the remaining zero coupon convertible debentures to long−term debt based on the put rights of the holders.

Our credit facilities, certain of our long−term debt agreements and our minority interests contain restrictive debt covenants. At May 28, 2006, we were in compliance with all of these covenants.

On March 23, 2005, we commenced a cash tender offer for our outstanding 6 percent notes due in 2012. The tender offer resulted in the purchase of $500 million principal amount of the notes. Subsequent to the expiration of the tender offer, we purchased an additional $260 million principal amount of the notes in the open market. The aggregate purchases resulted in debt repurchase costs of $137 million, consisting of $73 million of noncash interest rate swap losses reclassified from Accumulated Other Comprehensive Income, $59 million of purchase premium and $5 million of noncash unamortized cost of issuance expense.



As of May 28, 2006, the $86 million recorded in Accumulated Other Comprehensive Income associated with our previously designated interest rate swaps will be reclassified to interest expense over the remaining lives of the hedged forecasted transaction. The amount expected to be reclassified from Accumulated Other Comprehensive Income to interest expense in fiscal 2007 is $33 million. The amount reclassified from Accumulated Other Comprehensive Income in fiscal 2006 was $33 million.

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

| In Millions | May 28, 2006 | May 29, 2005 |
|---|---|---|
| 5 1/8% notes due February 15, 2007 | $ 1,500 | $ 1,500 |
| 6% notes due February 15, 2012 | 1,240 | 1,240 |
| 2.625% notes due October 24, 2006 | 500 | 500 |
| Medium−term notes, 4.8% to 9.1%, due 2006 to 2078(a) | 362 | 413 |
| 3 7/8% notes due November 30, 2007 | 350 | 350 |
| Zero coupon convertible debentures yield 2.0%, $371 due October 28, 2022 | 268 | 1,579 |
| 3.901% notes due November 30, 2007 | 135 | 135 |
| Zero coupon notes, yield 11.1%, $261 due August 15, 2013 | 121 | 108 |
| Other, primarily due July 11, 2008 | 66 | 62 |
| 8.2% ESOP loan guaranty, due through June 30, 2007 | 4 | 6 |
| | 4,546 | 5,893 |
| Less amounts due within one year | (2,131) | (1,638) |
| Total Long−term Debt | $ 2,415 | $ 4,255 |

(a) Medium−term notes of $131 million may mature in fiscal 2007 based on the put rights of these note holders.

See Note Seven for a description of related interest−rate derivative instruments.

We have guaranteed the debt of our Employee Stock Ownership Plan; therefore, the loan is reflected on our consolidated balance sheets as long−term debt with a related offset in Unearned Compensation in Stockholders’ Equity.

Principal payments due on long−term debt in the next five years based on stated contractual maturities or put rights of certain note holders are (in millions) $2,131 in fiscal 2007, $854 in fiscal 2008, $117 in fiscal 2009, $55 in fiscal 2010 and $0 in fiscal 2011.

## 9. Minority Interests

In April 2002, we and certain of our wholly owned subsidiaries contributed assets with an aggregate fair market value of approximately $4 billion to another wholly owned subsidiary, General Mills Cereals, LLC (GMC), a limited liability company. GMC is a separate and distinct legal entity from the Company and its subsidiaries, and has separate assets, liabilities, businesses and operations. The contributed assets consist primarily of manufacturing assets and intellectual property associated with the production and retail sale of Big G ready−to−eat cereals, *Progresso* soups and *Old El Paso* products. In exchange for the contribution of these assets, GMC issued the managing membership interest and preferred membership interests to our wholly owned subsidiaries. The managing member directs the business activities and operations of GMC and has fiduciary responsibilities to GMC and its members.

Other than rights to vote on certain matters, holders of the preferred membership interests have no right to direct the management of GMC.

In May 2002, one of our wholly owned subsidiaries sold 150,000 Class A preferred membership interests in GMC to an unrelated third−party investor in exchange for $150 million. On October 8, 2004, another of our wholly owned subsidiaries sold 835,000 Series B−1 preferred membership interests in GMC in exchange for $835 million. In connection with the sale of the Series B−1 interests, GMC and its existing members entered into a Third Amended and Restated Limited Liability Company Agreement of GMC (the LLC Agreement), setting forth, among other things, the terms of the Series B−1 and Class A interests held by the third−party investors and the rights of those investors. Currently, all interests in GMC, other than the 150,000 Class A interests and 835,000 Series B−1 interests, but including all managing member interests, are held by our wholly owned subsidiaries.

The Class A interests receive quarterly preferred distributions at a floating rate equal to (i) the sum of three−month LIBOR plus 90 basis points, divided by (ii) 0.965. The LLC Agreement requires that the rate of the distributions on the Class A interests be adjusted by agreement between the third−party investor holding the Class A interests and GMC every five years, beginning in June 2007. If GMC and the investor fail to mutually agree on a new rate of preferred distributions, GMC must remarket the Class A interests to set a new distribution rate. Upon a failed remarketing, the rate over LIBOR will be increased by 75 basis points until the next scheduled remarketing date. GMC, through its managing member, may elect to repurchase all of the Class A interests at any time for an amount equal to the holder's capital account, plus any applicable make−whole amount. Under certain circumstances, GMC also may be required to be dissolved and liquidated, including, without limitation, the bankruptcy of GMC or its subsidiaries, failure to deliver the preferred distributions, 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 Standard & Poor's, and a failed attempt to remarket the Class A interests as a result of a breach of GMC's obligations to assist in such remarketing. In the event of a liquidation of GMC, each member of GMC would receive the amount of its then capital account balance. The managing member may avoid liquidation in most circumstances by exercising an option



to purchase the Class A interests. An election to purchase the preferred membership interests could impact our liquidity by requiring us to refinance the purchase price.

The Series B−1 interests are entitled to receive quarterly preferred distributions at a fixed rate of 4.5 percent per year, which is scheduled to be reset to a new fixed rate through a remarketing in October 2007. Beginning in October 2007, the managing member of GMC may elect to repurchase the Series B−1 interests for an amount equal to the holder's then current capital account balance plus any applicable make−whole amount. GMC is not required to purchase the Series B−1 interests nor may these investors put these interests to us.

Upon the occurrence of certain exchange events (as described below), the Series B−1 interests will be exchanged for shares of our perpetual preferred stock. An exchange will occur upon our senior unsecured debt rating falling below either Ba3 as rated by Moody's Investors Service, Inc. or BB− as rated by Standard & Poor's or Fitch, Inc., our bankruptcy or liquidation, a default on any of our senior indebtedness resulting in an acceleration of indebtedness having an outstanding principal balance in excess of $50 million, failing to pay a dividend on our common stock in any fiscal quarter, or certain liquidating events as set forth in the LLC Agreement.

If GMC fails to make a required distribution to the holders of Series B−1 interests when due, we will be restricted from paying any dividend (other than dividends in the form of shares of common stock) or other distributions on shares of our common or preferred stock, and may not repurchase or redeem shares of our common or preferred stock, until all such accrued and undistributed distributions are paid to the holders of the Series B−1 interests. If the required distributions on the Series B−1 interests remain undistributed for six quarterly distribution periods, the managing member will form a nine−member board of directors to manage GMC. Under these circumstances, the holder of the Series B−1 interests will have the right to appoint one director. Upon the payment of the required distributions, the GMC board of directors will be dissolved. At May 28, 2006, we have made all required distributions to the Series B−1 interests. Upon the occurrence of certain events the Series B−1 interests will be included in our computation of diluted earnings per share as a participating security.

For financial reporting purposes, the assets, liabilities, results of operations and cash flows of GMC are included in our consolidated financial statements. The third−party investors' Class A and Series B−1 interests in GMC are reflected as minority interests on our Consolidated Balance Sheets, and the return to the third party investors is reflected as interest expense, net, in the Consolidated Statements of Earnings.

In fiscal 2003, General Mills Capital, Inc. (GM Capital), a subsidiary, sold $150 million of its Series A preferred stock to an unrelated third−party investor. GM Capital regularly purchases our receivables. These receivables are included in the Consolidated Balance Sheets and the $150 million purchase price for the Series A preferred stock is reflected as minority interest on the Consolidated Balance Sheets. The proceeds from the issuance of the preferred stock were used to reduce short−term debt. The return to the third−party investor is reflected as interest expense, net, in the Consolidated Statements of Earnings.

At May 28, 2006, our cash and cash equivalents included $11 million in GMC and $21 million in GM Capital that are restricted from use for our general corporate purposes pursuant to the terms of our agreements with third−party minority interest investors.

### 10. Stockholders' Equity

Cumulative preference stock of 5 million shares, without par value, is authorized but unissued.

We had a stockholder rights plan that expired on February 1, 2006.

The Board of Directors has authorized the repurchase, from time to time, of common stock for our treasury, provided that the number of treasury shares shall not exceed 170 million.

In October 2004, we purchased 17 million shares of our common stock from Diageo plc (Diageo) for $750 million, or $45.20 per share. This share repurchase was made in conjunction with Diageo's sale of 33 million additional shares of our common stock in an underwritten public offering.

Concurrently in October 2004, Lehman Brothers Holdings Inc. issued $750 million of notes, which are 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 are obligated to deliver to such affiliate between 14 million and 17 million shares of our common stock, subject to adjustment under certain circumstances. These shares will generally be deliverable by us in October 2007, in exchange for $750 million in cash or, in certain circumstances, securities of an affiliate of Lehman Brothers. We recorded a $43 million fee for this forward purchase contract as an adjustment to Stockholders' Equity.



The following table provides details of Other Comprehensive Income:

| In Millions | Pretax Change | Tax (Expense) Benefit | Other Compre−hensive Income |
|---|---|---|---|
| Fiscal 2004 | | | |
| Foreign currency translation | $ 75 | $ – | $ 75 |
| Minimum pension liability | 51 | (19) | 32 |
| Other fair value changes: | | | |
| Securities | 5 | (2) | 3 |
| Hedge derivatives | 24 | (9) | 15 |
| Reclassifications to earnings: | | | |
| Securities | (20) | 7 | (13) |
| Hedge derivatives | 136 | (50) | 86 |
| Other Comprehensive Income | $ 271 | $ (73) | $ 198 |
| Fiscal 2005 | | | |
| Foreign currency translation | $ 75 | $ – | $ 75 |
| Minimum pension liability | (35) | 13 | (22) |
| Other fair value changes: | | | |
| Securities | 2 | (1) | 1 |
| Hedge derivatives | (30) | 11 | (19) |
| Reclassifications to earnings: | | | |
| Securities | (2) | 1 | (1) |
| Hedge derivatives | 187 | (69) | 118 |
| Other Comprehensive Income | $ 197 | $ (45) | $ 152 |
| Fiscal 2006 | | | |
| Foreign currency translation | $ 73 | $ – | $ 73 |
| Minimum pension liability | 38 | (14) | 24 |
| Other fair value changes: | | | |
| Securities | 2 | (1) | 1 |
| Hedge derivatives | (13) | 5 | (8) |

| | | | |
|---|---|---|---|
| Reclassifications to earnings: | | | |
| Hedge derivatives | 44 | (17) | 27 |
| Other Comprehensive Income | $ 144 | $ (27) | $ 117 |

Except for reclassifications to earnings, changes in Other Comprehensive Income are primarily noncash items.

Accumulated Other Comprehensive Income balances, net of tax effects, were as follows:

| In Millions | May 28, 2006 | May 29, 2005 |
|---|---|---|
| Foreign currency translation adjustments | $ 208 | $ 135 |
| Unrealized gain (loss) from: | | |
| Securities | 2 | 1 |
| Hedge derivatives | (57) | (76) |
| Minimum pension liability | (28) | (52) |
| Accumulated Other Comprehensive Income | $ 125 | $ 8 |

**11. Stock Plans**

We use broad−based stock plans to help ensure management's alignment with our stockholders' interests. As of May 28, 2006, a total of 15,021,864 shares were available for grant in the form of stock options, restricted shares, restricted stock units and shares of common stock under the 2005 Stock Compensation Plan (2005 Plan) through December 31, 2007, and the 2001 Compensation Plan for Nonemployee Directors (2001 Director Plan) through September 30, 2006. Restricted shares and restricted stock units may also be granted under the Executive Incentive Plan (EIP) through September 25, 2010. Stock−based awards now outstanding include some granted under the 1990, 1993, 1995, 1996, 1998 (senior management), 1998 (employee) and 2003 stock plans, under which no further awards may be granted. The stock plans provide for full vesting of options, restricted shares and restricted stock units upon completion of specified service periods or in the event of a change of control. On May 28, 2006, a total of 3,606,659 restricted shares and restricted stock units were outstanding under all plans.

***Stock Options*** 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. The 2001 Director Plan allows each nonemployee director to receive upon election and re−election to the Board of Directors options to purchase 10,000 shares of common stock that generally vest one year, and expire within 10 years, 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 at May 25, 2003 | 37,743 | $ 31.61 | 74,360 | $ 37.07 |
| Granted | | | 5,180 | 46.12 |
| Exercised | | | (9,316) | 27.27 |
| Expired | | | (1,111) | 43.06 |
| Balance at May 30, 2004 | 37,191 | $ 33.73 | 69,113 | $ 38.97 |
| Granted | | | 4,544 | 46.94 |
| Exercised | | | (8,334) | 29.27 |
| Expired | | | (1,064) | 45.78 |
| Balance at May 29, 2005 | 36,506 | $ 36.08 | 64,259 | $ 40.68 |
| Granted(a) | | | 136 | 46.56 |
| Exercised | | | (5,572) | 32.99 |
| Expired | | | (620) | 45.67 |
| Balance at May 28, 2006 | 42,071 | $ 39.93 | 58,203 | $ 41.45 |

(a) In fiscal 2005 we changed the timing of our annual stock option grant from December to June. As a result, we did not make an annual stock option grant during fiscal 2006. On June 26, 2006, we granted (in thousands) 5,175 stock options at an exercise price of $51.26 per share.

| Range of Exercise Price per Share | Options Exercisable (Thousands) | Weighted Average Exercise Price per Share | Options Outstanding (Thousands) | Weighted Average Exercise Price per Share | Weighted Average Remaining Contractual Life (In Years) |
|---|---|---|---|---|---|
| Under $30 | 233 | $ 26.85 | 233 | $ 26.85 | 0.16 |
| $30 — $35 | 13,915 | 33.45 | 13,915 | 33.45 | 2.77 |
| $35 — $40 | 6,625 | 37.42 | 6,625 | 37.42 | 2.26 |
| $40 — $45 | 10,730 | 41.33 | 17,520 | 42.31 | 5.19 |
| Over $45 | 10,569 | 48.91 | 19,910 | 47.79 | 6.85 |
| | 42,071 | $ 39.93 | 58,203 | $ 41.45 | 4.83 |

***Restricted Stock Awards*** 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 2005 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 share 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 shares 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 shares, but not restricted stock units, are also entitled to vote on matters submitted to holders of common stock for a vote. The 2001 Director Plan allows each nonemployee director to receive upon election and re−election to the Board 1,000 restricted stock units that generally vest one year after the date of grant.

Information on restricted stock activity follows:

| Fiscal Year | 2006 | 2005 | 2004 |
|---|---|---|---|
| Number of shares awarded(a) | 629,919 | 1,497,480 | 1,738,581 |
| Weighted average price per share | $ 49.75 | $ 46.73 | $ 46.35 |

(a) In fiscal 2005 we changed the timing of our annual restricted stock unit grant from December to June. As a result, we did not make an annual restricted stock unit grant during fiscal 2006. On June 26, 2006, we granted 1,614,338 restricted stock units at a price per share of $51.26.

Stock−based compensation expense related to restricted stock awards was $45 million for fiscal 2006, $38 million for fiscal 2005 and $27 million for fiscal 2004.



## 12. Earnings Per Share

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

| In Millions, Except per Share Data, Fiscal Year | 2006 | 2005 | 2004 |
|---|---|---|---|
| Net earnings – as reported | $ 1,090 | $ 1,240 | $ 1,055 |
| Interest on contingently convertible debentures, after tax(a) | 9 | 20 | 20 |
| Net Earnings for Diluted Earnings per Share Calculation | $ 1,099 | $ 1,260 | $ 1,075 |
| Average number of common shares – basic earnings per share | 358 | 371 | 375 |
| Incremental share effect from: | | | |
| Stock options(b) | 6 | 8 | 8 |
| Restricted stock, restricted stock units and other(b) | 2 | 1 | 1 |
| Contingently convertible debentures(a) | 13 | 29 | 29 |
| Average Number of Common Shares – Diluted Earnings per Share | 379 | 409 | 413 |

| | | | |
|---|---|---|---|
| Earnings per Share – Basic | $ 3.05 | $ 3.34 | $ 2.82 |
| Earnings per Share – Diluted | $ 2.90 | $ 3.08 | $ 2.60 |

(a) Shares from contingently convertible debentures are reflected using the if−converted method. On December 12, 2005, we completed a consent solicitation and entered into a supplemental indenture related to our zero coupon convertible debentures. We also made an irrevocable election: (i) to satisfy all future obligations to repurchase debentures solely in cash and (ii) to satisfy all future conversions of debentures (a) solely in cash up to an amount equal to the accreted value of the debentures and (b) at our discretion, in cash, stock or a combination of cash and stock to the extent the conversion value of the debentures exceeds the accreted value. As a result of these actions, no shares of common stock underlying the debentures were considered outstanding after December 12, 2005, for purposes of calculating our diluted earnings per share.

(b) Incremental shares from stock options, restricted stock and restricted stock units are computed by the treasury stock method.

The diluted EPS calculation does not include stock options for 8 million shares in fiscal 2006, 9 million shares in fiscal 2005 and 12 million shares in fiscal 2004 that were considered anti−dilutive because their exercise price was greater than the average market price of our stock during the period.

## 13. Interest, Net

The components of interest, including distributions to minority interest holders, net are as follows:

| In Millions, Fiscal Year | 2006 | 2005 | 2004 |
|---|---|---|---|
| Interest expense | $ 367 | $ 449 | $ 529 |
| Distributions paid on preferred stock and interests in subsidiaries | 60 | 39 | 8 |
| Capitalized interest | (1) | (3) | (8) |
| Interest income | (27) | (30) | (21) |
| Interest, Net | $ 399 | $ 455 | $ 508 |

We made cash interest payments of $378 million in fiscal 2006, $450 million in fiscal 2005 and $497 million in fiscal 2004.

## 14. Retirement Benefits

***Pension Plans*** We have defined−benefit retirement plans covering most U.S., Canadian and United Kingdom employees. Benefits for salaried employees are based on length of service and final average compensation. The hourly plans include various monthly amounts for each year of credited service. Our funding policy is consistent with the requirements of applicable laws. Our principal domestic retirement plan covering salaried employees has a provision that any excess pension assets would vest in plan participants if the plan is terminated within five years of a change in control.

***Other Postretirement Benefit Plans*** We sponsor plans that provide health−care benefits to the majority of our U.S. 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 and made $95 million of voluntary contributions to these plans in fiscal 2006. Assumed health care cost trend rates are as follows:

| Fiscal Year | 2006 | 2005 |
|---|---|---|
| Health care cost trend rate for next year (a) | 10.0% and 11.0% | 9.0% |
| 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 | 2013/2014 | 2010 |

(a) In fiscal 2006, we raised our health care cost trend rate for plan participants greater than 65 years of age to 10 percent and for those less than 65 years of age to 11 percent. The year the ultimate trend rate is reached is 2013 for plan participants greater than 65 years of age and 2014 for plan participants less than 65 years of age.

We use our fiscal year−end as a measurement date for all our pension and postretirement benefit plans.

Summarized financial information about pension and other postretirement benefit plans is presented below. For fiscal 2006, the impact of plan amendments on the projected benefit obligation is primarily related to incremental benefits under agreements with the unions representing the hourly workers at certain of our U.S. cereal, dough and foodservice plants covering the four−year period ending April 25, 2010.

| | Pension Plans | | Other Postretirement Benefit Plans | |
|---|---|---|---|---|
| In Millions, Fiscal Year End | 2006 | 2005 | 2006 | 2005 |
| Change in Plan Assets: | | | | |
| Fair value at beginning of year | $ 3,237 | $ 2,850 | $ 242 | $ 219 |
| Actual return on assets | 502 | 486 | 38 | 39 |
| Employer contributions | 8 | 46 | 95 | 20 |
| Plan participant contributions | 1 | 1 | 9 | 8 |
| Benefit payments | (154) | (146) | (55) | (44) |
| Fair Value at End of Year | $ 3,594 | $ 3,237 | $ 329 | $ 242 |
| Change in Projected Benefit Obligation: | | | | |
| Benefit obligation at beginning of year | $ 3,082 | $ 2,578 | $ 971 | $ 826 |
| Service cost | 76 | 62 | 18 | 15 |
| Interest cost | 167 | 167 | 50 | 53 |
| Plan amendment | 31 | 1 | (4) | – |
| Curtailment/Other | – | 2 | 1 | 2 |
| Plan participant contributions | 1 | 1 | 9 | 8 |
| Actuarial loss (gain) | (315) | 417 | (43) | 116 |
| Benefits payments from plans | (154) | (146) | (52) | (49) |
| Projected Benefit Obligation at End of Year | $ 2,888 | $ 3,082 | $ 950 | $ 971 |
| Funded Status: | | | | |
| Plan assets in excess of (less than) benefit obligation | $ 706 | $ 155 | $ (621) | $ (729) |
| Unrecognized net actuarial loss | 464 | 993 | 317 | 393 |
| Unrecognized prior service costs (credits) | 69 | 43 | (14) | (11) |
| Net Amount Recognized | $ 1,239 | $ 1,191 | $ (318) | $ (347) |
| Amounts Recognized in Consolidated Balance Sheets: | | | | |
| Prepaid benefit cost | $ 1,320 | $ 1,239 | $ – | $ – |
| Accrued benefit cost | (131) | (134) | (318) | (347) |
| Intangible asset | – | 3 | – | – |
| Other comprehensive loss − minimum pension liability | 50 | 83 | – | – |
| Net Amount Recognized | $ 1,239 | $ 1,191 | $ (318) | $ (347) |

The accumulated benefit obligation for all defined−benefit plans was $2,689 million at May 28, 2006, and $2,868 million at May 29, 2005.

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

| | Pension Plans | | Other Postretirement Benefit Plans | |
|---|---|---|---|---|
| In Millions, Fiscal Year End | 2006 | 2005 | 2006 | 2005 |
| Projected benefit obligation | $ 173 | $ 293 | N/A | N/A |
| Accumulated benefit obligation | 147 | 279 | $ 950 | $ 971 |
| Plan assets at fair value | 15 | 144 | 329 | 242 |

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

| | Pension Plans | Other Postretirement Benefit Plans |
|---|---|---|

| In Millions, Fiscal Year | 2006 | 2005 | 2004 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|
| Service cost | $ 76 | $ 62 | $ 70 | $ 18 | $ 15 | $ 16 |
| Interest cost | 167 | 167 | 160 | 50 | 53 | 47 |
| Expected return on plan assets | (323) | (301) | (300) | (24) | (22) | (22) |
| Amortization of losses | 37 | 10 | 18 | 19 | 14 | 13 |
| Amortization of prior service costs (credits) | 5 | 6 | 5 | (2) | (2) | (2) |
| Settlement or curtailment losses | – | 2 | – | 2 | 2 | – |
| Net periodic benefit (income) costs | $ (38) | $ (54) | $ (47) | $ 63 | $ 60 | $ 52 |



***Assumptions*** Weighted−average assumptions used to determine benefit obligations are as follows:

| | Pension Plans | | Other Postretirement Benefit Plans | |
|---|---|---|---|---|
| Fiscal Year End | 2006 | 2005 | 2006 | 2005 |
| Discount rate | 6.55% | 5.55% | 6.50% | 5.50% |
| Rate of salary increases | 4.4 | 4.4 | – | – |

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

| | Pension Plans | | | Other Postretirement Benefit Plans | | |
|---|---|---|---|---|---|---|
| Fiscal Year | 2006 | 2005 | 2004 | 2006 | 2005 | 2004 |
| Discount rate | 5.55% | 6.65% | 6.00% | 5.50% | 6.65% | 6.00% |
| Rate of salary increases | 4.4 | 4.4 | 4.4 | – | – | – |
| Expected long−term rate of return on plan assets | 9.6 | 9.6 | 9.6 | 9.6 | 9.6 | 9.6 |

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.

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

| | Pension Plans | | Other Postretirement Benefit Plans | |
|---|---|---|---|---|
| Fiscal Year | 2006 | 2005 | 2006 | 2005 |
| Asset Category: | | | | |
| U.S. equities | 34% | 37% | 24% | 40% |
| International equities | 20 | 18 | 16 | 17 |
| Private equities | 10 | 7 | 7 | 5 |
| Fixed income | 22 | 26 | 43 | 28 |
| Real assets | 14 | 12 | 10 | 10 |
| Total | 100% | 100% | 100% | 100% |

The investment objective for the U.S. pension and other postretirement benefit plans is to secure the benefit obligations to participants at a reasonable cost to us. The goal is to optimize the long−term return on plan assets at a moderate level of risk. The pension and postretirement portfolios are broadly diversified across asset classes. Within asset classes, the portfolios are further diversified across investment styles and investment organizations. For the pension and other postretirement plans, the long−term investment policy allocations are: 30 percent to U.S. equities, 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.

***Contributions and Future Benefit Payments*** We expect to contribute $15 million to our pension plans and other postretirement benefit plans in fiscal 2007. Estimated benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

| In Millions, Fiscal Year | Pension Plans | Other Postretirement Benefit Plans Gross | Medicare Subsidy Receipts |
|---|---|---|---|
| 2007 | $ 157 | $ 54 | $ 6 |
| 2008 | 161 | 56 | 7 |
| 2009 | 165 | 59 | 7 |
| 2010 | 171 | 62 | 8 |
| 2011 | 177 | 66 | 8 |
| 2012 – 2016 | 1,011 | 367 | 49 |

Certain international operations have defined−benefit pension plans that are not presented in the tables above. These international operations had prepaid pension assets of less than $1 million at the end of fiscal 2006 and 2005, and they had accrued pension plan liabilities of $4 million at the end of fiscal 2006 and $7 million at the end of fiscal 2005. Pension expense associated with these plans was $3 million for fiscal 2006, $6 million for fiscal 2005 and $3 million for fiscal 2004.

***Defined Contribution Plans*** The General Mills Savings Plan is a defined contribution plan that covers salaried and nonunion employees. It had net assets of $2,031 million as of May 28, 2006, and $1,797 million as of May 29, 2005. This plan is a 401(k) savings plan that includes a number of investment funds and an Employee Stock Ownership Plan (ESOP). Our total expense related to defined−contribution plans recognized was $46 million in fiscal 2006, $17 million in fiscal 2005 and $20 million in fiscal 2004.

The ESOP's only assets are our common stock and temporary cash balances. The ESOP's share of the total defined contribution expense was $38 million in fiscal 2006, $11 million in fiscal 2005 and $15 million in fiscal 2004. The ESOP's expense is calculated by the "shares allocated" method.



The ESOP uses our common stock to convey benefits to employees and, through increased stock ownership, to further align employee interests with those of stockholders. We match a percentage of employee contributions to the General Mills Savings Plan with a base match plus a variable year−end match that depends on annual results. Employees receive our match in the form of common stock.

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 earnings per share. The ESOP's third−party debt is described in Note Eight.

We treat cash dividends paid to the ESOP the same as other dividends. Dividends received on leveraged shares (i.e., all shares originally purchased with the debt proceeds) are used for debt service, while dividends received on unleveraged shares are passed through to participants.

Our cash contribution to the ESOP is calculated so as to pay off enough debt to release sufficient shares to make our match. The ESOP uses 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 are made, shares become unencumbered by debt and are committed to be allocated. The ESOP allocates 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 interest expense of less than $1 million in fiscal 2006, 2005 and 2004. The ESOP used dividends of $4 million in fiscal 2006, $4 million in fiscal 2005 and $5 million in fiscal 2004, along with our contributions of less than $1 million in fiscal 2006, 2005 and 2004 to make interest and principal payments.

The number of shares of our common stock in the ESOP is summarized as follows:

| Number of Shares, in Thousands, Fiscal Year Ended | May 28, 2006 | May 29, 2005 |
|---|---|---|
| Unreleased shares | 150 | 280 |
| Allocated to participants | 5,187 | 5,334 |
| Total Shares | 5,337 | 5,614 |

***Executive Incentive Plan*** Our Executive Incentive Plan provides incentives to key employees who have the greatest potential to contribute to current earnings and successful future operations. All employees at the level of vice president and above participate in the plan. These awards are approved by the Compensation Committee of the Board of Directors, which consists solely of independent, outside directors. Awards are based on performance against pre−established goals approved by the Committee. Profit−sharing expense was $23 million, $17 million and $16 million in fiscal 2006, 2005 and 2004, respectively.

## 15. 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 | 2006 | 2005 | 2004 |
|---|---|---|---|
| Earnings before Income Taxes and After−tax Earnings from Joint Ventures: | | | |
| U.S. | $ 1,372 | $ 1,715 | $ 1,401 |
| Foreign | 187 | 92 | 101 |
| Total Earnings before Income Taxes and After−tax Earnings from Joint Ventures | $ 1,559 | $ 1,807 | $ 1,502 |
| Income taxes: | | | |
| Currently payable: | | | |
| Federal | $ 392 | $ 554 | $ 364 |
| State and local | 56 | 60 | 31 |
| Foreign | 64 | 38 | 22 |
| Total Current | 512 | 652 | 417 |
| Deferred: | | | |
| Federal | 38 | 14 | 85 |
| State and local | (4) | (3) | 7 |
| Foreign | (8) | (2) | 17 |
| Total Deferred | 26 | 9 | 109 |
| Total Income Taxes | $ 538 | $ 661 | $ 526 |

We paid income taxes of $321 million in fiscal 2006, $227 million in fiscal 2005 and $225 million in fiscal 2004.

The following table reconciles the U.S. statutory income tax rate with our effective income tax rate:

| Fiscal Year | 2006 | 2005 | 2004 |
|---|---|---|---|
| U.S. statutory rate | 35.0% | 35.0% | 35.0% |
| State and local income taxes, net of federal tax benefits | 2.6 | 2.0 | 1.6 |
| Divestitures, net | – | 1.8 | – |
| Other, net | (3.1) | (2.2) | (1.6) |
| Effective Income Tax Rate | 34.5% | 36.6% | 35.0% |

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

| In Millions | May 28, 2006 | May 29, 2005 |
| --- | --- | --- |
| Accrued liabilities | $ 189 | $ 180 |
| Restructuring and other exit charges | 8 | 7 |
| Compensation and employee benefits | 318 | 316 |
| Unrealized hedge losses | 45 | 72 |
| Unrealized losses | 850 | 855 |
| Tax credit carry forwards | 51 | 76 |
| Other | 19 | 14 |
| Gross deferred tax assets | 1,480 | 1,520 |
| Valuation allowance | 858 | 855 |
| Net deferred tax assets | 622 | 665 |
| Brands | 1,292 | 1,322 |
| Depreciation | 257 | 263 |
| Prepaid pension asset | 482 | 450 |
| Intangible assets | 75 | 58 |
| Tax lease transactions | 61 | 64 |
| Zero coupon convertible debentures | 18 | 73 |
| Other | 77 | 78 |
| Gross deferred tax liabilities | 2,262 | 2,308 |
| Net Deferred Tax Liability | $ 1,640 | $ 1,643 |

Of the total valuation allowance of $858 million, $768 million relates to a deferred tax asset for losses recorded as part of the Pillsbury acquisition. In the future, when tax benefits related to these losses are finalized, the reduction in the valuation allowance will be allocated to reduce goodwill. Of the remaining valuation allowance, $66 million relates to state and foreign operating loss carry forwards. In the future, if tax benefits are realized related to the operating losses, the reduction in the valuation allowance will reduce tax expense. At May 28, 2006, we believe it is more likely than not that the remainder of our deferred tax asset is realizable.

The carry forward period on the net tax benefited amounts of our foreign loss carry forwards are as follows: $20 million do not expire; $5 million will expire in 2007 and 2008; $21 million will expire between 2009 and 2014; and $16 million will expire in 2018.

We have not recognized a deferred tax liability for unremitted earnings of $1.03 billion from our foreign operations because we do not expect those earnings to become taxable to us in the foreseeable future.

### 16. Leases and Other Commitments

An analysis of rent expense by property leased follows:

| In Millions, Fiscal Year | 2006 | 2005 | 2004 |
| --- | --- | --- | --- |
| Warehouse space | $ 44 | $ 41 | $ 42 |
| Equipment | 27 | 30 | 20 |
| Other | 35 | 37 | 34 |
| Total Rent Expense | $ 106 | $ 108 | $ 96 |

Some 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 (in millions) are: $92 in fiscal 2007; $75 in fiscal 2008; $67 in fiscal 2009; $52 in fiscal 2010; $37 in fiscal 2011; and $85 after fiscal 2011, with a cumulative total of $408. These future lease commitments will be partially offset by estimated future sublease receipts of $55 million.

We are contingently liable under guarantees and comfort letters for $171 million. The guarantees and comfort letters are principally issued to support borrowing arrangements, primarily for our joint ventures.

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.

**17. Business Segment and Geographic Information**

We operate exclusively in the consumer foods industry, with multiple operating segments organized generally by product categories. We aggregate our operating segments into three reportable segments by type of customer and geographic region as follows: U.S. Retail, 69 percent of our fiscal 2006 consolidated net sales; International, 16 percent of our fiscal 2006 consolidated net sales; and Bakeries and Foodservice, 15 percent of our fiscal 2006 consolidated net sales.

U.S. Retail reflects business with a wide variety of grocery stores, mass merchandisers, club stores, specialty stores and drug, dollar and discount chains operating throughout the United States. Our major product categories in this business segment are ready−to−eat cereals, meals, refrigerated and frozen dough products, baking products, snacks, yogurt and organic foods. Our International segment is made up of retail businesses outside of the United States, including a retail business in Canada that largely mirrors our U.S. Retail product mix, and foodservice businesses outside of the United States and Canada. Our Bakeries and Foodservice segment consists of products marketed throughout the United States and Canada to retail and wholesale bakeries, commercial and noncommercial foodservice distributors and operators, restaurants, and convenience stores.

During fiscal 2006, one customer, Wal−Mart Stores, Inc. (Wal−Mart), accounted for approximately 18 percent of our consolidated net sales and 24 percent of our sales in the U.S. Retail segment. No other customer accounted for 10 percent or more of our consolidated net sales. At May 28,



2006, Wal−Mart accounted for 17 percent of our trade receivables invoiced in the U.S. Retail segment. The top five customers in our U.S. Retail segment accounted for approximately 47 percent of its fiscal 2006 net sales, and the top five customers in our Bakeries and Foodservice segment accounted for approximately 36 percent of its fiscal 2006 net sales.

Our management reviews operating results to evaluate segment performance. Operating profit for the reportable segments excludes unallocated corporate items (including a foreign currency transaction gain of $2 million in fiscal 2006 and foreign currency transaction losses of $6 million and $2 million in fiscal 2005 and 2004, respectively); net interest; restructuring and other exit costs; gain on divestitures; debt repurchase costs; income taxes; and after−tax earnings from joint ventures, as these items are centrally managed at the corporate level and are excluded from the measure of segment profitability reviewed by 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, capital expenditures for long−lived assets, and depreciation and amortization expenses are neither maintained nor available by operating segment. Transactions between reportable segments were not material in the periods presented.

| In Millions, Fiscal Year | 2006 | 2005 | 2004 |
|---|---|---|---|
| Net Sales: | | | |
| U.S. Retail | $ 8,137 | $ 7,891 | $ 7,843 |
| International | 1,837 | 1,725 | 1,550 |
| Bakeries and Foodservice | 1,738 | 1,692 | 1,729 |
| Total | $ 11,712 | $ 11,308 | $ 11,122 |
| Operating Profit: | | | |
| U.S. Retail | $ 1,801 | $ 1,745 | $ 1,824 |
| International | 194 | 163 | 112 |
| Bakeries and Foodservice | 116 | 108 | 117 |
| Total Segment Operating Profit | 2,111 | 2,016 | 2,053 |
| Unallocated corporate expenses | (123) | (32) | (17) |
| Restructuring and other exit costs | (30) | (84) | (26) |
| Operating Profit | $ 1,958 | $ 1,900 | $ 2,010 |

The following table provides net sales information for our reportable segments:

| In Millions, Fiscal Year | 2006 | 2005 | 2004 |
|---|---|---|---|
| U.S. Retail: | | | |
| Big G Cereals | $ 1,903 | $ 1,919 | $ 2,011 |
| Meals | 1,816 | 1,697 | 1,674 |
| Pillsbury USA | 1,550 | 1,562 | 1,527 |
| Yoplait | 1,099 | 967 | 904 |
| Snacks | 967 | 924 | 920 |
| Baking Products | 650 | 615 | 593 |
| Other | 152 | 207 | 214 |
| Total U.S. Retail | 8,137 | 7,891 | 7,843 |
| International: | | | |
| Europe | 629 | 622 | 557 |
| Canada | 566 | 514 | 470 |
| Asia/Pacific | 403 | 370 | 324 |
| Latin America/Other | 239 | 219 | 199 |
| Total International | 1,837 | 1,725 | 1,550 |
| Bakeries and Foodservice | 1,738 | 1,692 | 1,729 |
| Total | $ 11,712 | $ 11,308 | $ 11,122 |

The following table provides financial information identified by geographic area:

| In Millions, Fiscal Year | 2006 | 2005 | 2004 |
|---|---|---|---|
| Net sales: | | | |
| U.S. | $ 9,811 | $ 9,511 | $ 9,493 |
| Non−U.S. | 1,901 | 1,797 | 1,629 |
| Total | $ 11,712 | $ 11,308 | $ 11,122 |

| In Millions | May 28, 2006 | May 29, 2005 |
|---|---|---|
| Long−lived assets: | | |
| U.S. | $ 2,584 | $ 2,722 |
| Non−U.S. | 413 | 389 |
| Total | $ 2,997 | $ 3,111 |

## 18. Supplemental Information

The components of certain balance sheet accounts are as follows:

| In Millions | May 28, 2006 | May 29, 2005 |
|---|---|---|
| Receivables: | | |
| From customers | $ 931 | $ 910 |
| Other | 163 | 143 |
| Less allowance for doubtful accounts | (18) | (19) |
| Total | $ 1,076 | $ 1,034 |

| In Millions | May 28, 2006 | May 29, 2005 |
|---|---|---|
| Inventories: | | |
| At the lower of cost, determined on the FIFO or weighted average cost methods, or market: | | |
| Raw materials and packaging | $ 226 | $ 214 |
| Finished goods | 813 | 795 |
| Grain | 78 | 73 |
| Excess of FIFO or weighted−average cost over LIFO cost | (62) | (45) |
| Total | $ 1,055 | $ 1,037 |

Inventories of $739 million at May 28, 2006, and $758 million at May 29, 2005, were valued at LIFO.

| In Millions | May 28, 2006 | May 29, 2005 |
|---|---|---|
| Land, Buildings and Equipment: | | |
| Land | $ 54 | $ 54 |
| Buildings | 1,430 | 1,396 |
| Equipment | 3,859 | 3,722 |
| Capitalized software | 211 | 196 |
| Construction in progress | 252 | 302 |
| Total land, buildings and equipment | 5,806 | 5,670 |
| Less accumulated depreciation | (2,809) | (2,559) |
| Total | $ 2,997 | $ 3,111 |
| Other Assets: | | |
| Prepaid pension | $ 1,320 | $ 1,239 |
| Marketable securities, at market | 25 | 24 |
| Investments in and advances to joint ventures | 186 | 211 |
| Miscellaneous | 244 | 210 |
| Total | $ 1,775 | $ 1,684 |
| Other Current Liabilities: | | |
| Accrued payroll | $ 308 | $ 240 |
| Accrued interest | 152 | 134 |
| Accrued trade and consumer promotions | 294 | 273 |
| Accrued taxes | 743 | 588 |
| Miscellaneous | 299 | 277 |
| Total | $ 1,796 | $ 1,512 |
| Other Noncurrent Liabilities: | | |
| Interest rate swaps | $ 196 | $ 221 |
| Accrued compensation and benefits | 638 | 658 |
| Miscellaneous | 90 | 88 |
| Total | $ 924 | $ 967 |

Certain statement of earnings amounts are as follows:

| In Millions, Fiscal Year | 2006 | 2005 | 2004 |
|---|---|---|---|
| Depreciation, including depreciation of capitalized software | $ 424 | $ 443 | $ 399 |
| Research and development | 173 | 168 | 158 |
| Advertising (including production and communication costs) | 515 | 477 | 512 |

## 19. Quarterly Data (Unaudited)

Summarized quarterly data for fiscal 2006 and 2005 follows:

| In Millions, Except per Share and Market Price Amounts | First Quarter 2006 | First Quarter 2005 | Second Quarter 2006 | Second Quarter 2005 | Third Quarter 2006 | Third Quarter 2005 | Fourth Quarter 2006 | Fourth Quarter 2005 |
|---|---|---|---|---|---|---|---|---|
| Net sales | $ 2,679 | $ 2,599 | $ 3,293 | $ 3,186 | $ 2,878 | $ 2,789 | $ 2,862 | $ 2,734 |
| Gross margin | 993 | 911 | 1,203 | 1,160 | 985 | 971 | 986 | 940 |
| Net earnings | 252 | 183 | 370 | 367 | 246 | 230 | 222 | 460 (a) |
| Net earnings per share: | | | | | | | | |
| Basic | .69 | .48 | 1.04 | .99 | .69 | .63 | .62 | 1.25 |
| Diluted | .64 | .45 | .97 | .92 | .68 | .58 | .61 | 1.14 |
| Dividends per share | .33 | .31 | .33 | .31 | .34 | .34 | .34 | .31 |
| Market price of common stock: | | | | | | | | |
| High | 51.45 | 48.15 | 49.38 | 47.63 | 50.49 | 53.89 | 52.16 | 52.86 |
| Low | 45.49 | 44.72 | 44.67 | 43.01 | 47.05 | 44.96 | 48.51 | 48.05 |

(a) Net earnings in the fourth quarter of fiscal 2005 include a pretax $499 million gain from the dispositions of our 40.5 percent interest in SVE and the Lloyd's barbecue business, and $137 million of pretax debt repurchase expenses. See Notes Three and Eight.

Gross margin is defined as net sales less cost of sales.

**Exhibit 99.2**

**The information contained in this Exhibit 99.2 does not reflect events occurring after the filing of the Company's Annual Report on Form 10−K for the fiscal year ended May 28, 2006 (the "Initial Report"), except to the extent included in Amendment No. 1 to the Initial Report (the "Amended Report"), and does not modify or update the disclosures in the Initial Report or the Amended Report, other than as required to reflect the reclassifications described in this Form 8−K. Significant developments with respect to those disclosures, as well as other changes in our business, have occurred and are described in filings we have made with the Securities and Exchange Commission after filing the Initial Report.**

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

| | Fiscal Year Ended | | | | |
|---|---|---|---|---|---|
| **Dollars in Millions** | **May 28, 2006** | **May 29, 2005** | **May 30, 2004** | **May 25, 2003** | **May 26, 2002** |
| Earnings before Income Taxes and After−tax Earnings from Joint Ventures | $ 1,559 | $ 1,808 | $ 1,502 | $ 1,310 | $ 663 |
| Plus: Distributed Income of Equity Investees | 77 | 83 | 60 | 95 | 17 |
| Plus: Fixed Charges (1) | 463 | 524 | 569 | 619 | 468 |
| Plus: Amortization of Capitalized Interest, net of Interest Capitalized | 2 | 1 | (5) | (5) | — |
| Earnings Available to Cover Fixed Charges | $ 2,101 | $ 2,416 | $ 2,126 | $ 2,019 | $ 1,148 |
| Ratio of Earnings to Fixed Charges | **4.54** | **4.61** | **3.74** | **3.26** | **2.45** |

| | | | | | |
|---|---|---|---|---|---|
| (1) Fixed Charges: | | | | | |
| Interest and Minority Interest Expense, Gross | $ 428 | $ 488 | $ 537 | $ 589 | $ 445 |
| Rentals (1/3) | 35 | 36 | 32 | 30 | 23 |
| Total Fixed Charges | $ 463 | $ 524 | $ 569 | $ 619 | $ 468 |

For purposes of computing the ratio of earnings to fixed charges, earnings represent earnings before income taxes and after−tax earnings of joint ventures, distributed income of equity investees, fixed charges, and amortization of capitalized interest, net of interest capitalized. Fixed charges represent gross interest expense and subsidiary preferred distributions to minority interest holders, plus one−third (the proportion deemed representative of the interest factor) of rent expense. Calculations are based on underlying numbers. We have reclassified previously reported Ratios of Earnings to Fixed Charges to conform to the current year presentation.