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FORM 10-Q

GENERAL MILLS INC - gis

Filed: September 19, 2007 (period: August 26, 2007)

Quarterly report which provides a continuing view of a company's financial position

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED AUGUST 26, 2007
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ____ TO ____

Commission file number: 001-01185

GENERAL MILLS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

Number One General Mills Boulevard
Minneapolis, MN
(Mail: P.O. Box 1113)
(Address of principal executive offices)

55426
(Mail: 55440)
(Zip Code)

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

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

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

Large Accelerated filer Accelerated filer Non-accelerated filer

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

Number of shares of Common Stock outstanding as of September 13, 2007: 323,345,851 (excluding 178,960,813 shares held in the treasury).

General Mills, Inc.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

GENERAL MILLS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited) (In Millions, Except per Share Data)

	<u>Quarter Ended</u>	
	<u>Aug. 26, 2007</u>	<u>Aug. 27, 2006</u>
Net sales	\$ 3,072.0	\$ 2,860.4
Cost of sales	1,915.8	1,796.7
Selling, general, and administrative expenses	631.6	574.8
Restructuring, impairment, and other exit costs (income)	<u>14.5</u>	<u>(1.9)</u>
Operating profit	510.1	490.8
Interest expense, net	<u>113.3</u>	<u>105.0</u>
Earnings before income taxes and after-tax earnings from joint ventures	396.8	385.8
Income taxes	130.3	138.0
After-tax earnings from joint ventures	<u>22.4</u>	<u>19.1</u>
Net earnings	<u>\$ 288.9</u>	<u>\$ 266.9</u>
Earnings per share – basic	<u>\$ 0.85</u>	<u>\$ 0.76</u>
Earnings per share – diluted	<u>\$ 0.81</u>	<u>\$ 0.74</u>
Dividends per share	<u>\$ 0.39</u>	<u>\$ 0.35</u>

See accompanying notes to consolidated financial statements.

GENERAL MILLS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Millions)

	Aug. 26, 2007	May 27, 2007
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 410.2	\$ 417.1
Receivables	1,064.0	952.9
Inventories	1,554.8	1,173.4
Prepaid expenses and other current assets	375.8	443.1
Deferred income taxes	73.3	67.2
Total current assets	3,478.1	3,053.7
Land, buildings and equipment	2,963.1	3,013.9
Goodwill	6,685.5	6,835.4
Other intangible assets	3,729.4	3,694.0
Other assets	1,621.8	1,586.7
Total assets	\$ 18,477.9	\$ 18,183.7
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 893.6	\$ 777.9
Current portion of long-term debt	1,946.5	1,734.0
Notes payable	3,560.6	1,254.4
Other current liabilities	1,104.7	2,078.8
Total current liabilities	7,505.4	5,845.1
Long-term debt	3,003.8	3,217.7
Deferred income taxes	1,421.2	1,433.1
Other liabilities	1,846.5	1,229.9
Total liabilities	13,776.9	11,725.8
Minority interests	242.3	1,138.8
Stockholders' equity:		
Common stock, 502.3 shares issued, \$.10 par value	50.2	50.2
Additional paid-in capital	5,969.0	5,841.3
Retained earnings	5,901.2	5,745.3
Common stock in treasury, at cost, shares of 181.2 and 161.7	(7,364.2)	(6,198.0)
Accumulated other comprehensive loss	(97.5)	(119.7)
Total stockholders' equity	4,458.7	5,319.1
Total liabilities and equity	\$ 18,477.9	\$ 18,183.7

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)					Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive	Total
	Issued			Treasury					
	Shares	Par Amount	Additional Paid-In Capital	Shares	Amount				

	Income (Loss)																	
Balance as of May 28, 2006	502.3	\$	50.2	\$	5,736.6	(145.9)	\$	(5,163.0)	\$	5,106.6	\$	(83.5)	\$	125.4	\$	5,772.3		
Comprehensive income:																		
Net earnings											1,143.9							1,143.9
Other comprehensive income, net of tax:																		
Net change on hedge derivatives														22.3			22.3	
Foreign currency translation														193.8			193.8	
Minimum pension liability adjustment														(20.8)			(20.8)	
Other comprehensive income														195.3			195.3	
Total comprehensive income																	1,339.2	
Adoption of SFAS No. 123R											(83.5)			83.5			—	
Adoption of SFAS No. 158														(440.4)			(440.4)	
Cash dividends declared (\$1.44 per share)														(505.2)			(505.2)	
Stock compensation plans (includes income tax benefits of \$73.1)											164.6	9.5			339.4			504.0
Shares purchased												(25.3)			(1,385.1)			(1,385.1)
Unearned compensation related to restricted stock awards											(95.0)						(95.0)	
Issuance of shares to settle conversion on zero coupon convertible debentures, net of tax											(10.7)			10.7			—	
Earned compensation											129.3						129.3	
Balance as of May 27, 2007	502.3	\$	50.2	\$	5,841.3	(161.7)	\$	(6,198.0)	\$	5,745.3	\$	—	\$	(119.7)	\$	5,319.1		
Comprehensive income:																		
Net earnings											288.9							288.9
Other comprehensive income, net of tax:																		
Net change on hedge derivatives														(2.9)			(2.9)	
Foreign currency translation														17.7			17.7	
Amortization of losses and prior service costs														7.4			7.4	
Other comprehensive income														22.2			22.2	
Total comprehensive income																	311.1	
Cash dividends declared (\$.39 per share)														(133.4)			(133.4)	
Stock compensation plans (includes income tax benefits of \$8.3)											116.0	1.4			54.2			170.2
Shares purchased												(20.9)			(1,220.4)			(1,220.4)
Unearned compensation related to restricted stock awards											(101.2)						(101.2)	
Adoption of FIN 48											57.8			8.4			66.2	
Capital appreciation paid to holders of Series B-1 limited membership interests in General Mills Cereals, LLC (GMC)														(8.0)			(8.0)	
Earned compensation											55.1						55.1	
Balance as of August 26, 2007	502.3	\$	50.2	\$	5,969.0	(181.2)	\$	(7,364.2)	\$	5,901.2	\$	—	\$	(97.5)	\$	4,458.7		

See accompanying notes to consolidated financial statements.

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GENERAL MILLS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In Millions)

	Quarter Ended	
	Aug. 26, 2007	Aug. 27, 2006
Cash Flows – Operating Activities		
Net earnings	\$ 288.9	\$ 266.9
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	108.2	104.4
After-tax earnings from joint ventures	(22.4)	(19.2)
Stock-based compensation	55.1	53.1
Deferred income taxes	(17.0)	9.6
Distributions of earnings from joint ventures	16.4	10.9
Pension, other postretirement, and postemployment benefit costs	(16.3)	(12.9)
Restructuring, impairment, and other exit costs (income)	13.9	(1.9)
Changes in current assets and liabilities	(417.5)	(326.5)
Other, net	11.1	26.2
Net cash provided by operating activities	<u>20.4</u>	<u>110.6</u>
Cash Flows – Investing Activities		

Purchases of land, buildings and equipment	(67.9)	(61.4)
Acquisitions	1.3	(57.7)
Investments in affiliates, net	(2.3)	(126.7)
Proceeds from disposal of land, buildings, and equipment	11.2	10.4
Other, net	6.6	(4.7)
Net cash used by investing activities	<u>(51.1)</u>	<u>(240.1)</u>
Cash Flows – Financing Activities		
Change in notes payable	2,297.2	719.5
Payment of long-term debt	—	(66.7)
Repurchase of Series B-1 limited membership interests in General Mills Cereals, LLC (GMC)	(843.0)	—
Repurchase of General Mills Capital, Inc. preferred stock	(150.0)	—
Proceeds from sale of Class A limited membership interests in GMC	92.3	—
Common stock issued	29.8	71.5
Tax benefit on exercised options	8.3	14.6
Purchases of common stock for treasury	(1,278.7)	(706.4)
Dividends paid	(132.1)	(125.7)
Net cash provided (used) by financing activities	<u>23.8</u>	<u>(93.2)</u>
Decrease in cash and cash equivalents	(6.9)	(222.7)
Cash and cash equivalents – beginning of year	417.1	647.4
Cash and cash equivalents – end of period	<u>\$ 410.2</u>	<u>\$ 424.7</u>
Cash Flow from Changes in Current Assets and Liabilities:		
Receivables	\$ (109.3)	\$ (106.3)
Inventories	(378.8)	(373.2)
Prepaid expenses and other current assets	65.0	30.7
Accounts payable	114.7	140.6
Other current liabilities	(109.1)	(18.3)
Changes in current assets and liabilities	<u>\$ (417.5)</u>	<u>\$ (326.5)</u>

See accompanying notes to consolidated financial statements.

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GENERAL MILLS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Background

The accompanying Consolidated Financial Statements of General Mills, Inc. (we, us, our, or the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the rules and regulations for reporting on Form 10-Q. Accordingly, they do not include certain information and disclosures required for comprehensive financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the quarter ended August 26, 2007, are not necessarily indicative of the results that may be expected for the fiscal year ending May 25, 2008.

These statements should be read in conjunction with the Consolidated Financial Statements and footnotes included in our Annual Report on Form 10-K for the fiscal year ended May 27, 2007. The accounting policies used in preparing these Consolidated Financial Statements are the same as those described in Note 2 to the Consolidated Financial Statements in that Form 10-K, except as discussed in Notes 16 and 18 to these Consolidated Financial Statements for the quarter ended August 26, 2007. In addition, certain reclassifications to our previously reported financial information have been made to conform to the current period presentation.

(2) Acquisitions and Divestitures

During the first quarter of fiscal 2008, we acquired a controlling interest in HD Distributors (Thailand) Company Limited. Prior to acquiring the controlling interest, we accounted for the transaction as a joint venture. The purchase price, net of cash acquired, resulted in a \$1.3 million cash inflow classified in acquisitions on the Consolidated Statements of Cash Flows. The pro forma effect of this acquisition was not material.

During the first quarter of fiscal 2007, our Cereal Partners Worldwide (CPW) joint venture completed the acquisition of the Uncle Tobys cereal business in Australia for approximately \$385.6 million. We funded our 50 percent share of the purchase price by making additional advances to and equity contributions in CPW totaling \$135.1 million (classified as investments in affiliates, net, on the Consolidated Statements of Cash Flows) and by acquiring a 50 percent beneficial interest in certain intellectual property for \$57.7 million (classified as acquisitions on the Consolidated Statements of Cash Flows). During the first quarter of fiscal 2008, we completed the allocation of our purchase price and reclassified \$16.1 million from goodwill to other intangible assets on our Consolidated Balance Sheets.

Also, during the first quarter of fiscal 2007, we committed to a plan to sell our par-baked bread product line, including plants in Chelsea, Massachusetts and Tempe, Arizona, and recorded a \$6.0 million loss on the sale, including the write-off of \$6.2 million of goodwill, in restructuring, impairment, and other exit costs.

(3) Restructuring, Impairment, and Other Exit Costs

During the first quarter of fiscal 2008, we took several restructuring actions. Due to declining financial results, we decided to exit our frozen waffle product line (retail and foodservice) and to close our frozen waffle plant in Allentown, Pennsylvania, affecting 111 employees. We recorded a charge of \$10.1 million related to this closure, consisting of \$3.9 million of employee severance charges and a \$6.2 million non-cash impairment charge against long-lived assets at the plant. We also completed an analysis of the viability of our Bakeries and Foodservice frozen dough facility in Trenton, Ontario, and will close the facility, affecting 470

employees. We recorded an \$8.5 million charge for employee severance expenses and curtailment charges associated with a defined benefit pension plan. These actions, including the anticipated timing of the disposition of the plants we will close, are expected to be completed by February 28, 2009.

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We also restructured our production scheduling and discontinued our cake product line at our Chanhassen, Minnesota, Bakeries and Foodservice plant. These actions affected 125 employees, and we recorded a charge for employee severance expenses of \$3.0 million in the first quarter of fiscal 2008. These actions are expected to be completed by the end of fiscal 2008.

Collectively, the total charge we expect to incur with respect to these impairment and restructuring actions is approximately \$65.0 million, of which approximately \$45.0 million is expected to be recognized in fiscal 2008.

During the first quarter of fiscal 2008, we also completed the sale of our previously closed Vallejo, California plant. We received \$10.6 million in proceeds and recorded a gain of \$7.1 million.

Restructuring, impairment, and other exit costs (income) in the first quarter of fiscal 2008 were as follows:

Expense (income), in millions	
Closure of Allentown, Pennsylvania frozen waffle plant	\$ 10.1
Closure of Trenton, Ontario frozen dough plant	8.5
Restructuring of production scheduling and discontinuation of cake product line at Chanhassen, Minnesota plant	3.0
Gain on sale of previously closed Vallejo, California plant	(7.1)
Total	\$ 14.5

Restructuring, impairment, and other exit costs (income) in the first quarter of fiscal 2007 were as follows:

Expense (income), in millions	
Gain on sale of previously closed plant in San Adrian, Spain	\$ (8.6)
Impairment of long-lived assets and write off of associated goodwill related to par-baked bread line, including its plants in Chelsea, Massachusetts and Tempe, Arizona	6.2
Charges associated with restructuring actions previously announced	0.5
Total	\$ (1.9)

(4) Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill in the first quarter of fiscal 2008 were as follows:

In millions	U.S.		Bakeries and Foodservice	Joint Ventures	Total
	Retail	International			
Balance as of May 27, 2007	\$ 5,202.9	\$ 142.2	\$ 981.8	\$ 508.5	\$ 6,835.4
Finalization of purchase accounting	—	—	—	(16.1)	(16.1)
Adoption of FIN 48	(110.9)	(10.6)	(30.4)	—	(151.9)
Other activity, primarily foreign currency translation	5.0	3.2	1.4	8.5	18.1
Balance as of Aug. 26, 2007	\$ 5,097.0	\$ 134.8	\$ 952.8	\$ 500.9	\$ 6,685.5

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The changes in the carrying amount of other intangible assets in the first quarter of fiscal 2008 were as follows:

In millions	U.S.		Joint Ventures	Total
	Retail	International		
Balance as of May 27, 2007	\$ 3,175.2	\$ 460.9	\$ 57.9	\$ 3,694.0
Finalization of purchase accounting	—	14.5	16.1	30.6
Other activity, primarily foreign currency translation	—	4.6	0.2	4.8
Balance as of Aug. 26, 2007	\$ 3,175.2	\$ 480.0	\$ 74.2	\$ 3,729.4

(5) Inventories

The components of inventories were as follows:

In millions	Aug. 26, 2007	May 27, 2007
Raw materials and packaging	\$ 285.5	\$ 242.1
Finished goods	1,154.4	898.0
Grain	220.3	111.4
Excess of FIFO or weighted-average cost over LIFO cost	(105.4)	(78.1)
Total	\$ 1,554.8	\$ 1,173.4

(6) Derivatives and Hedging Activities

Application of hedge accounting under Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS 133), requires significant resources, recordkeeping, and analytical systems. As a result of the rising compliance costs and the complexity associated with the application of hedge accounting, we have elected to discontinue the use of hedge accounting for all commodity derivative positions entered into after the beginning of fiscal 2008. Accordingly, the changes in the values of these derivatives are recorded in cost of sales in our Consolidated Statements of Earnings currently.

Regardless of designation for accounting purposes, we believe all of our commodity hedges are economic hedges of our risk exposures, and as a result we consider these derivatives to be hedges for purposes of measuring segment operating performance. Thus, these gains and losses are reported in unallocated corporate expenses outside of segment operating results until such time that the exposure we are hedging affects earnings. At that time we reclassify the hedge gain or loss from unallocated corporate expenses to segment operating profit, allowing our operating segments to economically realize the effects of the hedge without experiencing any resulting mark-to-market volatility, which remains in unallocated corporate expenses. Commodity derivatives previously accounted for as cash flow hedges are not affected by this change, and any gains or losses deferred to accumulated other comprehensive loss in stockholders' equity will remain there until the hedged item affects earnings.

Pursuant to our new policy, unallocated corporate expenses in the first quarter of fiscal 2008 include a net \$3.0 million loss from commodity derivatives, consisting of a \$15.1 million mark to market gain on our open commodity derivative positions, primarily from agricultural derivatives, offset by the impact of reclassifying \$18.1 million of gains on hedge positions, primarily agricultural derivatives, to segment operating profit during the period, which partially offset higher input costs on the hedged exposures.

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(7) Debt

The components of notes payable at the end of the respective periods were as follows:

In millions	Aug. 26, 2007	May 27, 2007
U.S. commercial paper	\$ 1,810.4	\$ 476.9
Euro commercial paper	1,636.8	639.0
Financial institutions	113.4	138.5
Total	\$ 3,560.6	\$ 1,254.4

On August 3, 2007, we entered into a credit facility with an initial aggregate revolving commitment of \$750.0 million. The facility will expire on December 6, 2007. As of August 26, 2007, we had not drawn against this facility.

On August 29, 2007, we completed the sale of \$700.0 million of 5.65 percent fixed-rate notes due September 10, 2012. The proceeds of the notes were used to repay outstanding commercial paper. Interest on the notes is payable semi-annually in arrears. The notes may be redeemed at our option at any time for a specified make-whole amount. The notes are senior unsecured, unsubordinated obligations and contain a change of control provision, as defined in the instruments governing the notes.

Our credit facilities and certain of our long-term debt agreements contain restrictive covenants. As of August 26, 2007, we were in compliance with all of these covenants.

(8) Minority Interests

On August 7, 2007, we repurchased for a net amount of \$843.0 million all of the outstanding Series B-1 limited membership interests (Series B-1 Interests) previously issued by our subsidiary General Mills Cereals, LLC (GMC) as part of a required remarketing of those interests. The purchase price reflected the Series B-1 Interests' original capital account balance of \$835.0 million and \$8.0 million of capital account appreciation attributable and paid to the third party holder of the Series B-1 Interests. The capital appreciation paid to the third party holder of the Series B-1 Interests was recorded as a reduction to retained earnings, a component of stockholders' equity, on the Consolidated Balance Sheets, and reduced net earnings available to common stockholders in our basic and diluted earnings per share (EPS) calculations. We used commercial paper to fund the repurchase.

We and the third party holder of all of GMC's outstanding Class A limited membership interests (Class A Interests) agreed to reset, effective on June 28, 2007, the preferred rate of return applicable to the Class A Interests to the sum of 3 month LIBOR plus 65 basis points. On June 28, 2007, we also sold \$92.3 million of additional Class A Interests to the same third party. There was no gain or loss associated with these transactions. As of August 26, 2007, the carrying value of all outstanding Class A Interests on our Consolidated Balance Sheets was \$242.3 million, and the capital account balance of the Class A Interests, upon which preferred distributions are calculated, was \$248.1 million.

On June 28, 2007, we repurchased for \$150.0 million all of the outstanding Series A preferred stock of our subsidiary General Mills Capital, Inc. (GM Capital) using proceeds from the sale of the Class A Interests and commercial paper. There was no gain or loss associated with this repurchase.

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(9) Stockholders' Equity

The following table provides detail of total comprehensive income:

In millions	Quarter Ended			Quarter Ended		
	Aug. 26, 2007			Aug. 27, 2006		
	Pretax	Tax	Net	Pretax	Tax	Net
Net earnings			\$ 288.9			\$ 266.9
Other comprehensive income (loss):						
Foreign currency Translation adjustments	\$ 17.7	\$ —	\$ 17.7	\$ (2.4)	\$ —	\$ (2.4)
Minimum pension liability	—	—	—	(4.7)	1.6	(3.1)
Other fair value changes:						
Securities	(1.0)	0.3	(0.7)			
Hedge derivatives	19.4	(7.2)	12.2	(18.3)	7.0	(11.3)
Reclassification to earnings:						
Hedge derivatives	(22.5)	8.1	(14.4)	11.8	(4.3)	7.5
Amortization of losses and prior service costs	11.4	(4.0)	7.4	—	—	—
Other comprehensive income (loss)	\$ 25.0	\$ (2.8)	\$ 22.2	\$ (13.6)	\$ 4.3	\$ (9.3)
Total comprehensive income			\$ 311.1			\$ 257.6

Except for reclassifications to earnings, changes in other comprehensive income (loss) are primarily noncash items.

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

In millions	Aug. 26, 2007	May 27, 2007
Foreign currency translation adjustments	\$ 419.8	\$ 402.1
Unrealized gain (loss) from:		
Securities	3.2	3.9
Hedge derivatives	(38.7)	(36.5)
Pension, other postretirement and postemployment benefits:		
Net actuarial loss	(442.4)	(448.5)
Prior service costs	(39.4)	(40.7)
Accumulated other comprehensive loss	\$ (97.5)	\$ (119.7)

(10) Stock Plans

We have various stock-based compensation programs under which awards, including stock options, restricted stock, and restricted stock units, may be granted to employees and non-employee directors. These programs and related accounting are described on pages 58 to 60 of our fiscal 2007 Annual Report on Form 10-K.

Compensation expense related to stock-based payments recognized in selling, general, and administrative expenses in the Consolidated Statements of Earnings in the first quarter of fiscal 2008 was \$55.1 million.

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We recognized \$8.3 million of excess tax benefits from options exercised in the first quarter of fiscal 2008, and \$14.6 million in the first quarter of fiscal 2007. These amounts are classified as financing cash flows in our Consolidated Statements of Cash Flows.

Net cash proceeds from the exercise of stock options less shares used for withholding taxes were \$30.6 million for the first quarter of fiscal 2008, and \$74.7 million for the first quarter of fiscal 2007.

The weighted-average grant-date fair values of stock options granted during the first quarter of fiscal 2008, were estimated at \$10.60 per share, and during the first quarter of fiscal 2007, were estimated at \$10.74 per share, using the Black-Scholes option-pricing model with the following assumptions:

Quarter Ended	
Aug. 26, 2007	Aug. 27, 2006

Risk-free interest rate	5.1%	5.3%
Expected term	8.5 years	8 years
Expected volatility	15.6%	19.7%
<u>Dividend yield</u>	<u>2.7%</u>	<u>2.8%</u>

We estimate the fair value of each option on the grant date using the Black-Scholes option-pricing model, which requires us to make predictive assumptions regarding future stock price volatility, employee exercise behavior, and dividend yield. We estimate our future stock price volatility using the historical volatility over the expected term of the option, excluding time periods of volatility we believe a marketplace participant would exclude in their estimate of our stock price volatility. For the fiscal 2008 grants, we have excluded historical volatility for fiscal 2002 and prior, primarily because volatility driven by the acquisition of Pillsbury does not reflect what we believe to be expected future volatility. We also have considered, but did not use, implied volatility in our estimate as trading activity in options on our stock, especially those with tenors of greater than 6 months, is insufficient to provide a reliable measure of expected volatility. Our method of selecting the other valuation assumptions is explained on pages 58 and 59 in our Annual Report on Form 10-K for the fiscal year ended May 27, 2007.

Information on stock option activity follows:

	Shares (thousands)	Weighted- average exercise price	Weighted- average remaining contractual term (years)	Aggregate intrinsic value (millions)
Outstanding as of May 27, 2007	53,773.2	\$ 43.09		
Granted	5,352.6	58.79		
Exercised	(868.9)	37.23		
Forfeited or expired	(39.2)	50.09		
Outstanding as of Aug. 26, 2007	58,217.7	44.62	4.98	\$ 746.7
Exercisable as of Aug. 26, 2007	38,649.5	\$ 41.31	3.32	\$ 618.4

The intrinsic value of options exercised during the first quarter of fiscal 2008, was \$18.6 million, and was \$37.9 million in the first quarter of fiscal 2007.

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Information on restricted stock unit activity follows:

	Units (thousands)	Weighted- average grant-date fair value
Non-vested as of May 27, 2007	4,785.9	\$ 48.74
Granted	1,761.0	58.76
Vested	(350.0)	47.13
Forfeited	(47.3)	50.35
Non-vested as of Aug. 26, 2007	6,149.6	\$ 51.69

The total grant-date fair value of restricted stock unit awards that vested in the first quarter of fiscal 2008 was \$16.5 million. The total grant-date fair value of restricted stock unit awards that vested in the first quarter of fiscal 2007 was \$11.1 million.

As of August 26, 2007, compensation cost related to non-vested stock options and restricted stock units was \$262.4 million. This cost will be recognized over 26 months, on average.

(11) Earnings Per Share

Basic and diluted EPS were calculated using the following:

	Quarter Ended	
	Aug. 26, 2007	Aug. 27, 2006
In millions, except per share data		
Net earnings – as reported	\$ 288.9	\$ 266.9
Capital appreciation paid on Series B-1 interests in GMC (a)	(8.0)	—
Net earnings for basic and diluted EPS calculations	\$ 280.9	\$ 266.9
Average number of common shares – basic EPS	329.9	352.0
Incremental share effect from:		
Stock options (b)	11.0	9.5
Restricted stock, restricted stock units, and other (b)	2.6	1.6
Forward purchase contract	1.4	—
Average number of common shares – diluted EPS	344.9	363.1

Earnings per share – basic	\$	0.85	\$	0.76
Earnings per share – diluted	\$	0.81	\$	0.74

(a) See Note 8.

(b) Incremental shares from stock options, restricted stock, and restricted stock units are computed by the treasury stock method. As of August 26, 2007, 3.9 million shares from stock options and restricted stock units, and as of August 27, 2006, 10.6 million shares from stock options and restricted stock units, were excluded from our computation of diluted EPS because they were not dilutive.

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(12) Share Repurchases

During the first quarter of fiscal 2008, we repurchased 20.9 million shares of common stock for \$1,220.4 million, of which \$1.0 million was included in current liabilities as of August 26, 2007, and settled after the end of the quarter. Also in the first quarter of fiscal 2008, we settled \$64.5 million of share repurchase liability as of May 27, 2007.

During the first quarter of fiscal 2007, we repurchased 14.1 million shares of common stock for \$736.5 million, of which \$37.6 million was included in current liabilities as of August 27, 2006, and settled after the end of the quarter. Also in the first quarter of fiscal 2007, we settled \$7.5 million of share repurchase liability as of May 28, 2006.

(13) Interest Expense, Net

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

Expense (income), in millions	Quarter Ended	
	Aug. 26, 2007	Aug. 27, 2006
Interest expense	\$ 107.0	\$ 96.5
Distributions paid on preferred stock and interests of subsidiaries	13.2	15.8
Capitalized interest	(1.2)	(0.6)
Interest income	(5.7)	(6.7)
Total	\$ 113.3	\$ 105.0

(14) Statements of Cash Flows

During the first quarter of fiscal 2008, we made cash interest payments of \$161.3 million, versus \$143.6 million in the same period last year. Also, in the first quarter of fiscal 2008, we made tax payments of \$37.3 million, versus \$26.6 million in the same period last year.

(15) Retirement and Postemployment Benefits

Components of net pension, other postretirement, and postemployment (income) expense for each fiscal period were as follows:

In millions	Defined Benefit Pension Plans		Other Postretirement Benefit Plans		Postemployment Benefit Plans	
	Quarter Ended		Quarter Ended		Quarter Ended	
	Aug. 26, 2007	Aug. 27, 2006	Aug. 26, 2007	Aug. 27, 2006	Aug. 26, 2007	Aug. 27, 2006
Service cost	\$ 20.0	\$ 18.3	\$ 4.1	\$ 4.1	\$ 1.2	\$ 1.2
Interest cost	49.1	46.4	14.7	14.6	0.9	1.0
Expected return on plan assets	(90.1)	(83.8)	(7.6)	(6.8)	—	—
Amortization of losses	5.6	3.1	3.8	3.9	—	—
Amortization of prior service costs (credits)	1.9	2.0	(0.4)	(0.4)	0.5	0.5
Other adjustments	—	—	—	—	3.4	5.0
Net (income) expense	\$ (13.5)	\$ (14.0)	\$ 14.6	\$ 15.4	\$ 6.0	\$ 7.7

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(16) Income Taxes

Effective Tax Rate

Our consolidated effective income tax rate is influenced by tax planning opportunities available to us in the various jurisdictions in which we operate. The effective tax rate for the first quarter of fiscal 2008 was 32.8 percent compared to 35.8 percent for the first quarter of fiscal 2007. The 3.0 percentage point decrease is primarily due to discrete foreign tax credits in the first quarter of \$7.2 million and a 1.1 percentage point increase in foreign and other tax credits. We also had a beneficial discrete tax impact of \$7.0 million relating to international deferred foreign income taxes resulting from tax rate changes that were largely offset by a similar adjustment to deferred state income taxes from tax rate changes in Michigan.

Uncertain Tax Positions

We adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation (FIN) 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109" (FIN 48), as of the beginning of fiscal 2008. Prior to adoption, our policy was to establish reserves that reflected the probable outcome of known tax contingencies. The effects of final resolution, if any, were recognized as changes to the effective income tax rate in the period of resolution. FIN 48 requires application of a more likely than not threshold to the recognition and derecognition of uncertain tax positions. FIN 48 permits us to recognize the amount of tax benefit that has a greater than 50 percent likelihood of being ultimately realized upon settlement. It further requires that a change in judgment related to the expected ultimate resolution of uncertain tax positions be recognized in earnings in the quarter of such change.

As a result of adoption, we recorded a \$218.1 million reduction to accrued taxes, a \$151.9 million reduction to goodwill, a \$57.8 million increase to additional paid-in capital and an \$8.4 million increase to retained earnings at the beginning of fiscal 2008. In addition, we had gross unrecognized tax benefit liabilities of \$546.3 million of which \$264.8 million would impact the effective tax rate if recognized. Approximately \$11.3 million of the unrecognized tax benefit liabilities are expected to be paid within the next 12 months and were classified in other current liabilities on the Consolidated Balance Sheets as of August 26, 2007. The remaining amount of our unrecognized tax benefit liabilities are now classified in other liabilities. We report accrued interest and penalties related to unrecognized tax benefits in income tax expense. Upon adoption, we had accrued interest and penalties of \$97.9 million.

The following is a rollforward of our total gross unrecognized tax benefit liabilities for the first quarter of fiscal 2008:

<u>In millions</u>	
Balance as of May 28, 2007	\$ 546.3
Tax positions related to current year:	
Additions	20.8
Reductions	—
Tax positions related to prior years:	
Additions	26.6
Reductions	(0.5)
Settlements	—
Lapses in statutes of limitations	(7.6)
<u>Balance as of August 26, 2007</u>	<u>\$ 585.6</u>

We do not reasonably expect any significant changes to the estimated amount of liability associated with our uncertain tax positions which arose prior to fiscal 2008.

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

The number of years with open tax audits varies depending on the tax jurisdiction. Our major taxing jurisdictions include the United States (federal and state) and Canada. With limited exceptions, we are no longer subject to United States federal examinations by the Internal Revenue Service (IRS) for fiscal years before 2002. The IRS recently concluded field examinations for our 2002 and 2003 fiscal years. A payment of \$24.4 million was made during the first quarter of fiscal 2008 to cover the additional tax liability plus interest related to all agreed adjustments for this audit cycle. The IRS also proposed additional adjustments for the 2002-2003 audit cycle including several adjustments to the tax benefits associated with the sale of minority interests in our GMC subsidiary. We believe we have meritorious defenses and intend to vigorously defend our position. Our potential liability for this matter is significant and, notwithstanding our reserves against this potential liability, an unfavorable resolution could have a material adverse impact on our results of operations and cash flows from operations. We do not expect the amount of our tax reserves for these issues to change in the next 12 months. The IRS initiated its audit of our fiscal 2004 through 2006 tax years during the first quarter of fiscal 2008.

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

(17) Business Segment Information

We operate in the consumer foods industry. We have three operating segments by type of customer and geographic region as follows: U.S. Retail, International, and Bakeries and Foodservice.

Our U.S. Retail segment reflects business with a wide variety of grocery stores, mass merchandisers, membership stores, natural food chains, and drug, dollar, and discount chains operating throughout the United States. Our major product categories in the United States are ready-to-eat cereals, refrigerated yogurt, ready-to-serve soup, dry dinners, shelf stable and frozen vegetables, refrigerated and frozen dough products, dessert and baking mixes, frozen pizza and pizza snacks, grain, fruit and savory snacks, microwave popcorn, and a wide variety of organic products including soup, granola bars, and cereal.

Our International segment is largely made up of retail businesses outside of the United States. In Canada, our major product categories are ready-to-eat cereals, shelf stable and frozen vegetables, dry dinners, refrigerated and frozen dough products, dessert and baking mixes, frozen pizza snacks, and grain, fruit and savory snacks. In markets outside the United States and Canada, our product categories include super-premium ice cream, granola and grain snacks, shelf stable and

frozen vegetables, dough products, and dry dinners. Our International segment also includes products manufactured in the United States for export internationally, primarily in Caribbean and Latin American markets, as well as products we manufacture for sale to our joint ventures internationally. Revenues from export activities are reported in the region or country where the end customer is located.

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

Operating profit for the operating segments excludes unallocated corporate expenses (variances to planned corporate overhead expenses, variances to planned domestic employee benefits and incentives, all stock compensation costs, annual contributions to the General Mills Foundation, and other items that are not part of our measurement of segment operating performance, including gains and losses from commodity derivatives entered into after May 27, 2007, until passed back to our operating segments in accordance with our internal hedge documentation as discussed in Note 6), and restructuring, impairment, and other exit costs because these items affecting operating profit are centrally managed at the corporate level and are excluded from the measure of segment profitability reviewed by executive management. Under our supply chain organization, our manufacturing, warehouse, and distribution activities are substantially integrated across our operations in order to maximize efficiency and productivity. As a result, fixed assets and depreciation and amortization expenses are neither maintained nor available by operating segment. Our operating segment results were as follows:

In millions	Quarter Ended	
	Aug. 26, 2007	Aug. 27, 2006
Net sales:		
U.S. Retail	\$ 2,031.7	\$ 1,910.0
International	599.4	505.6
Bakeries and Foodservice	440.9	444.8
Total	\$ 3,072.0	\$ 2,860.4
Operating profit:		
U.S. Retail	\$ 473.3	\$ 447.3
International	71.0	55.9
Bakeries and Foodservice	34.0	29.0
Total segment operating profit	578.3	532.2
Corporate unallocated expense	53.7	43.3
Restructuring, impairment, and other exit costs (income)	14.5	(1.9)
Operating profit	\$ 510.1	\$ 490.8

[\(18\) New Accounting Pronouncements](#)

In the first quarter of fiscal 2008, we adopted Staff Accounting Bulletin No. 108 "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 provides interpretive guidance on the process and diversity in practice of quantifying financial statement misstatements resulting in the potential carryover of improper amounts on the balance sheet. The Securities and Exchange Commission believes that registrants should quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. The adoption of SAB 108 did not have a material impact on our results of operations or financial condition.

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Also in the first quarter of fiscal 2008, we adopted SFAS No. 155, "Hybrid Instruments" (SFAS 155). SFAS 155 amends SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 155 is effective for all financial instruments acquired or issued after May 27, 2007. The adoption of SFAS No. 155 did not have any impact on our results of operations or financial condition.

In September 2006, the FASB ratified the consensus of Emerging Issues Task Force Issue No. 06-5, "Accounting for Purchases of Life Insurance-Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4" (EITF 06-5). EITF 06-5 requires that a policyholder consider any additional amounts included in the contractual terms of the policy in determining the amount that could be realized under the insurance contract on a policy by policy basis. We adopted EITF 06-5 in the first quarter of fiscal 2008, and it did not have any impact on our results of operations or financial condition.

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

INTRODUCTION

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the MD&A included in our Annual Report on Form 10-K for the fiscal year ended May 27, 2007, for important background regarding, among other things, our key business drivers. Significant trademarks and service marks used in our business are set forth in *italics* herein.

CONSOLIDATED RESULTS OF OPERATIONSFirst Quarter Results

For the first quarter of fiscal 2008, we reported diluted earnings per share of \$0.81, up 9.4 percent from \$0.74 per share earned in the same period last year. Net earnings were \$288.9 million in the first quarter of fiscal 2008, up 8.2 percent from \$266.9 million last year. Net sales for the first quarter of fiscal 2008 grew 7.4 percent to \$3.1 billion and total segment operating profit increased 8.7 percent to \$578.3 million (see page 27 for a discussion of this measure not defined by generally accepted accounting principles (GAAP)).

Net sales growth during the first quarter of fiscal 2008 was the result of 3.0 points of combined segment volume growth, 3.2 points of growth from pricing and product mix, and 1.2 points of favorable foreign currency exchange. During the first quarter of fiscal 2008, volume growth was recorded in our U.S. Retail and International operating segments, while Bakeries and Foodservice volumes declined, including the effects of divested product lines in fiscal 2007.

Components of net sales growth First quarter of fiscal 2008 vs. first quarter of fiscal 2007	U.S.		Bakeries and	Combined
	Retail	International	Foodservice	Segments
Volume growth (a)	3.3 pts	8.7 pts	-4.9 pts	3.0 pts
Price/product mix	3.1 pts	2.8 pts	4.0 pts	3.2 pts
Foreign currency exchange	NA	7.0 pts	NA	1.2 pts
Net sales growth	6.4 pts	18.5 pts	-0.9 pts	7.4 pts

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

Cost of sales increased \$119.1 million from the first quarter of fiscal 2007 to \$1,915.8 million. Higher volume drove \$48.7 million of this increase. Changes in mix and input cost inflation increased cost of sales by \$85.5 million. In addition, we recorded \$15.1 million of mark to market gains on our open commodity derivatives in the first quarter of fiscal 2008.

Selling, general, and administrative (SG&A) expenses were up \$56.8 million in the first quarter of fiscal 2008 versus the same period in fiscal 2007. SG&A expenses as a percent of net sales in fiscal 2008 increased 50 basis points from fiscal 2007 to 20.6 percent. This increase was primarily driven by a 10.5 percent increase in consumer marketing expense, \$10.8 million of costs associated with the remarketing of the Class A and Series B-1 Interests of GMC, and higher compensation and benefit expenses.

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Restructuring, impairment, and other exit costs (income) were \$14.5 million for the first quarter of fiscal 2008, comprised of the following:

Expense (income), in millions	
Closure of Allentown, Pennsylvania frozen waffle plant	\$ 10.1
Closure of Trenton, Ontario frozen dough plant	8.5
Restructuring of production scheduling and discontinuation of cake product line at Chanhassen, Minnesota plant	3.0
Gain on sale of previously closed Vallejo, California plant	(7.1)
Total	\$ 14.5

Due to declining financial results, we decided to exit our frozen waffle product line (retail and foodservice) and to close our frozen waffle plant in Allentown, Pennsylvania, affecting 111 employees. We recorded \$3.9 million of employee severance charges and a \$6.2 million non-cash impairment charge against long-lived assets at the plant.

We completed an analysis of the viability of our Bakeries and Foodservice frozen dough facility in Trenton, Ontario, and will close the facility, affecting 470 employees. We recorded a \$8.5 million charge for employee severance expenses and curtailment charges associated with a defined benefit pension plan.

We also approved the restructuring of our production scheduling and the discontinuation of our cake product line at our Chanhassen, Minnesota, Bakeries and Foodservice plant. These actions affected 125 employees, and we recorded a charge for employee severance expenses of \$3.0 million. These actions, including the sale of equipment, are expected to be completed by the end of fiscal 2008.

Collectively, the total charge we expect to incur with respect to these impairment and restructuring actions is approximately \$65.0 million, of which approximately \$45.0 million is expected to be recognized in fiscal 2008.

We also completed the sale of our previously closed Vallejo, California plant. We received \$10.6 million in proceeds and recorded a gain of \$7.1 million.

Restructuring, impairment, and other exit costs (income) for the first quarter of fiscal 2007 totaled \$1.9 million of income as follows:

<u>Expense (income), in millions</u>	
Gain on sale of previously closed plant in San Adrian, Spain	\$ (8.6)
Impairment of long-lived assets and associated goodwill related to par-baked bread line, including its plants in Chelsea, Massachusetts and Tempe, Arizona	6.2
Charges associated with restructuring actions previously announced	0.5
<u>Total</u>	<u>\$ (1.9)</u>

Net interest expense for the quarter totaled \$113.3 million, an \$8.3 million increase from the first quarter of fiscal 2007. Average interest bearing instruments increased \$765.3 million causing a \$12.0 million increase in net interest expense, while average interest rates decreased 20 basis points causing a \$3.7 million decrease in net interest expense. Average debt balances have increased to fund higher share repurchases and our repurchases of the Series B-1 interests of GMC and the Series A preferred stock of GM Capital in August 2007.

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The **effective income tax rate** for the first quarter of fiscal 2008 was 32.8 percent compared to 35.8 percent for the first quarter of fiscal 2007. The 3.0 percentage point decrease is primarily due to discrete foreign tax credits in the first quarter of \$7.2 million and a 1.1 percentage point increase in foreign and other tax credits. We also had a beneficial discrete tax impact of \$7.0 million relating to international deferred foreign income taxes resulting from tax rate changes that were largely offset by a similar adjustment to deferred state income taxes from tax rate changes in Michigan.

After-tax earnings from joint ventures increased \$3.3 million from the first quarter of fiscal 2007, to \$22.4 million. Net sales for Cereal Partners Worldwide (CPW) increased 25.7 percent driven by higher volume, including 8.1 points of growth from the acquisition of Uncle Tobys, and 7 points of favorable foreign exchange. Net sales for our Häagen-Dazs ice cream joint ventures in Asia matched prior-year levels as an increase in sales volume was offset by unfavorable foreign exchange. 8th Continent, our soy products joint venture, recorded a 15.6 percent net sales decrease in the first quarter of fiscal 2008, driven by decreased sales volume.

Average diluted shares outstanding decreased by 18.2 million in the first quarter of fiscal 2008, from the same period a year ago due primarily to the repurchase of 32.2 million shares of our common stock since the end of the first quarter of fiscal 2007, partially offset by the issuance of shares upon stock option exercises, the issuance of annual stock awards, and the vesting of restricted stock units.

SEGMENT OPERATING RESULTS

U.S. Retail Segment Results

Net sales for our U.S. Retail operations were up 6.4 percent in the first quarter of fiscal 2008, to \$2,031.7 million. This growth in net sales was the result of a 3.3 percentage point increase in volume on a tonnage basis, led by strong growth in our Snacks business, as well as increases in our Baking Products, Meals, and Pillsbury divisions. The volume increase was largely driven by higher levels of consumer marketing spending and new product innovation, resulting in higher sales to key customers. Price and product mix drove 3.1 points of growth.

U.S. Retail Net Sales Percentage Change by Division

	<u>% Change</u>
Big G	5.3%
Meals	6.2
Pillsbury	5.9
Snacks	16.0
Yoplait	3.4
Baking Products	6.8
Small Planet Foods	(3.7)
<u>Total</u>	<u>6.4%</u>

Big G cereals recorded a 5.3 percent net sales increase reflecting introductory shipments of new products, improved levels of non-promoted sales, and the effect of pricing and package size changes on established cereal brands. The Meals division recorded a 6.2 percent net sales increase, led by *Progresso* ready-to-serve soups and dry dinners. Pillsbury net sales grew by 5.9 percent, led by strength in *Totino's* pizza and hot snacks and *Toaster Strudel*. Snacks division net sales grew 16.0 percent led by strong performance in *Nature Valley* and *Fiber One* grain snacks and *Betty Crocker* fruit snacks, offset by declines in the salty snacks and popcorn categories. Yoplait recorded net sales growth of 3.4 percent led by the Light varieties and multipack segments of the core cup product line, as well as pricing actions taken during the quarter.

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Operating profits for the first quarter of fiscal 2008, improved 5.8 percent to \$473.3 million from \$447.3 million in the same period a year ago. Volume growth increased operating profit by \$27.6 million. Increased supply chain costs of \$31.5 million and consumer marketing expenses of \$19.1 million were offset by favorable price and product mix.

[International Segment Results](#)

Net sales for our International segment were up 18.5 percent in the first quarter of fiscal 2008 to \$599.4 million. This growth was driven by an 8.7 point increase in sales volume, 7.0 points of favorable foreign exchange, and 2.8 points of price and product mix. Sales volumes increased across all of our geographic regions, especially in Europe and Latin America.

International Net Sales Percentage Change by Geographic Region

	% Change
Europe	16.7%
Canada	10.7
Asia/Pacific	17.4
Latin America and South Africa	42.4
Total	18.5%

Net sales in Europe grew 16.7 percent reflecting continued strong performance from *Old El Paso* and *Nature Valley* across the region, and especially in the United Kingdom. Net sales in Canada increased 10.7 percent, led by *Nature Valley* grain snacks, *Old El Paso* products, *Pillsbury* pizza snacks and cereals. In the Asia/Pacific region, net sales grew by 17.4 percent led by strong growth for *Häagen-Dazs* in China. Latin America and South Africa net sales increased 42.4 percent led by market share gains and pricing actions taken in key countries.

Operating profits for the first quarter of fiscal 2008, improved 27.0 percent to \$71.0 million from \$55.9 million in the same period a year ago, with foreign currency exchange contributing 8.3 points of that growth. The growth was also driven by a \$14.4 million increase from higher volumes resulting from increases in consumer marketing spending. Net price realization offset supply chain and administrative cost increases.

[Bakeries and Foodservice Segment Results](#)

Net sales for our Bakeries and Foodservice segment declined 0.9 percent to \$440.9 million in the first quarter of fiscal 2008. The decrease in net sales was driven mainly by a 4.9 point decline in volume, mainly in the distributors and restaurants customer segment, and included the effects of divested frozen pie and par-baked bread product lines. The volume impact on net sales was largely offset by 4.0 points of benefit from price and product mix.

Bakeries and Foodservice Net Sales Percentage Change by Customer Segment

	% Change
Distributors and restaurants	(3.4)%
Bakery channels	1.1
Convenience stores and vending	4.0
Total	(0.9)%

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Operating profits for the segment reached \$34.0 million, up from \$29.0 million in the first quarter of fiscal 2007. The business was able to offset input cost inflation with a combination of pricing actions, sourcing productivity, and manufacturing improvements. Through previously announced restructuring actions and new product innovation, the business has shed a significant amount of low-margin product sales and introduced higher margin new products. In addition, the operating segment has continued to experience manufacturing efficiencies, further contributing to widening margins.

[Unallocated Corporate Expenses](#)

For the first quarter of fiscal 2008, unallocated corporate expenses were \$53.7 million compared to \$43.3 million for the first quarter of fiscal 2007. The increase is primarily due to \$10.8 million of costs related to the remarketing of the Class A and Series B-1 interests in GMC and \$3.0 million of net expenses on commodity derivatives.

[LIQUIDITY](#)

During the first quarter of fiscal 2008, our operations provided \$20.4 million of cash compared to providing \$110.6 million of cash in the first quarter of fiscal 2007. The \$90.2 million decrease in cash generated from operations was driven primarily by changes in the levels of accrued interest and compensation-related liabilities year over year.

During the first quarter of fiscal 2008, \$378.8 million of cash was used to increase inventories, generally consistent with the increase in the first quarter of fiscal 2007, mainly due to inflation in wheat prices and higher levels of finished goods inventory driven by our cereal package resizing initiative and growth in the granola snacks business.

Cash used by investing activities decreased \$189.0 million from the first quarter of fiscal 2007 mainly due to the acquisition of the Uncle Tobys business by our CPW joint venture in that quarter. In addition, we received \$10.6 million on the sale of our Vallejo, California plant during the first quarter of fiscal 2008.

Financing activities provided \$23.8 million of cash in the first quarter of fiscal 2008. Cash flows from notes payable of \$2,297.2 million were primarily used to finance share repurchases and our repurchases of the Series B-1 interests in GMC and the Series A preferred stock of GM Capital.

On August 7, 2007, we repurchased for a net amount of \$843.0 million all of the outstanding Series B-1 Interests in GMC as part of a required remarketing of those interests. The purchase price reflected the Series B-1 Interests' original capital account balance of \$835.0 million and \$8.0 million of capital account appreciation attributable and paid to the third party holder of the Series B-1 Interests. The capital appreciation paid to the third party holder of the Series B-1 Interests was recorded as a reduction to retained earnings, a component of stockholders' equity, on the Consolidated Balance Sheets, and reduced net earnings available to common stockholders in our basic and diluted earnings per share (EPS) calculations.

We and the third party holder of all of GMC's Class A Interests agreed to reset, effective on June 28, 2007, the preferred rate of return applicable to the Class A Interests to the sum of 3 month LIBOR plus 65 basis points. On June 28, 2007, we sold \$92.3 million of additional Class A Interests to the same third party. There was no gain or loss associated with these transactions. As of August 26, 2007, the carrying value of all outstanding Class A Interests on our Consolidated Balance Sheets was \$242.3 million, and the capital account balance of the Class A Interests, upon which preferred distributions are calculated, was \$248.1 million.

On June 28, 2007, we repurchased for \$150.0 million all of the outstanding Series A preferred stock of our subsidiary General Mills Capital, Inc. using proceeds from the sale of the Class A Interests and commercial paper. There was no gain or loss associated with this repurchase.

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During the first quarter of fiscal 2008, we repurchased 20.9 million shares of common stock for \$1,220.4 million. As of August 26, 2007, we had unpaid obligations associated with our share repurchases totaling \$1.0 million included in other current liabilities. We settled these obligations shortly after the end of our fiscal quarter. Also in the first quarter of fiscal 2008, we settled \$64.5 million of share repurchase liability as of May 27, 2007.

On June 25, 2007, we announced that our Board of Directors approved an increase in our quarterly dividend to 39 cents per share, payable on August 1, 2007, to stockholders of record on July 10, 2007. The previous quarterly dividend rate of 37 cents per share was established with the February 1, 2007 payment. During the first quarter of fiscal 2008, we paid \$132.1 million in dividends compared to \$125.7 million in the same period last year.

CAPITAL RESOURCES

Our capital structure was as follows:

In Millions	Aug. 26, 2007	May 27, 2007
Notes payable	\$ 3,560.6	\$ 1,254.4
Current portion of long-term debt	1,946.5	1,734.0
Long-term debt	3,003.8	3,217.7
Total debt	8,510.9	6,206.1
Minority interests	242.3	1,138.8
Stockholders' equity	4,458.7	5,319.1
Total capital	\$ 13,211.9	\$ 12,664.0

Commercial paper is a continuing source of short-term financing. We issue commercial paper in the United States, Canada, and Europe. Our commercial paper borrowings are supported by fee-paid committed credit lines consisting of a \$1.1 billion facility expiring in October 2007, a \$750 million facility expiring in January 2009, and a \$1.1 billion facility expiring in October 2010. On August 3, 2007, we entered into a credit facility with an aggregate revolving commitment of \$750 million that is scheduled to expire on December 6, 2007. As of August 26, 2007, we had no outstanding borrowings under these facilities.

Our credit facilities, certain of our long-term debt agreements, and our minority interests contain restrictive covenants. As of August 26 2007, we were in compliance with all of these covenants.

We have \$1.9 billion of long-term debt maturing in the next 12 months and classified as current, including \$1.25 billion that may mature in fiscal 2008 based on the put rights of the note holders. We also have classified \$138.6 million of long-term debt as current based on our intention to redeem the debt within the next 12 months. 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 August 29, 2007, we completed the sale of \$700.0 million of 5.65 percent fixed-rate notes due September 10, 2012. The proceeds of the notes were used to repay outstanding commercial paper. Interest on the notes is payable semi-annually in arrears. The notes may be redeemed at our option at any time for a specified make-whole amount. The notes are senior unsecured and unsubordinated obligations and contain a change of control provision, as defined in the instruments governing the notes.

We have an effective shelf registration statement on file with the Securities and Exchange Commission (SEC) covering the sale of debt securities, common stock, preference stock, depository shares, securities warrants, purchase contracts, purchase units, and units. Following the completion of the aforementioned note issuance, \$3.0 billion remained available under the shelf registration for future use.

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In October 2004, Lehman Brothers Holdings, Inc. (Lehman Brothers) issued \$750.0 of notes that 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 between 14.3 million and 17.1 million shares of our common stock, subject to adjustment under certain circumstances. With the completion of the

remarketing of the Series B-1 limited membership interests of GMC in August 2007, we will deliver shares (14.3 million shares assuming the price of our stock on August 26, 2007) of our common stock to Lehman Brothers in October 2007 and Lehman Brothers will deliver to us \$750 million in cash. We expect to use the cash to repay outstanding debt.

OFF BALANCE-SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

There were no material changes outside the ordinary course of our business in our contractual obligations or off-balance-sheet arrangements during the first quarter of fiscal 2008, except for a new data contract that we entered into in June. We have contractual obligations of \$155.2 million over the eight year life of this contract.

SIGNIFICANT ACCOUNTING ESTIMATES

Our significant accounting policies are described in Note 2 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 27, 2007. The accounting policies used in preparing our interim fiscal 2008 Consolidated Financial Statements are the same as those described in our Annual Report on Form 10-K, except as discussed in Notes 16 and 18 to these Consolidated Financial Statements for the quarter ended August 26, 2007.

Our significant accounting estimates are those that have meaningful impact on the reporting of our financial condition and results of operations. These estimates include our accounting for promotional expenditures, intangible assets, stock compensation, income taxes, and defined benefit pension, other postretirement, and postemployment benefits. Except for changes in these estimates as disclosed below, the assumptions and methodologies used in the determination of those estimates as of August 26, 2007, are the same as those described in our Annual Report on Form 10-K for the fiscal year ended May 27, 2007.

Stock Compensation

We have various stock-based compensation programs under which awards, including stock options, restricted stock, and restricted stock units, may be granted to employees and non-employee directors. Stock option grants are made at 100 percent of the fair market value of our stock at the date of grant. These awards generally vest over four years and have a ten-year and one-month term. The expense recorded in our Consolidated Financial Statements is based on the fair value of the awards.

We estimate the fair value of each option on the grant date using the Black-Scholes option-pricing model, which requires us to make predictive assumptions regarding future stock price volatility, employee exercise behavior, and dividend yield. We estimate our future stock price volatility using the historical volatility over the expected term of the option, excluding time periods of volatility we believe a marketplace participant would exclude in their estimate of our stock price volatility. For the fiscal 2008 grants, we have excluded historical volatility for fiscal 2002 and prior, primarily because volatility driven by the acquisition of Pillsbury does not reflect what we believe to be expected future volatility. We also have considered, but did not use, implied volatility in our estimate as trading activity in options on our stock, especially those with tenors of greater than 6 months, is insufficient to provide a reliable measure of expected volatility. Our method of selecting the other valuation assumptions is explained on pages 58 and 59 in our Annual Report on Form 10-K for the fiscal year ended May 27, 2007.

Income Taxes

We adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation (FIN) No 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109" (FIN 48), as of the beginning of fiscal 2008. Prior to adoption, our policy was to establish reserves that reflected the probable outcome of known tax contingencies. The effects of final resolution, if any, were recognized as changes to the effective income tax rate in the period of resolution. FIN 48 requires application of a more likely than not threshold to the recognition and derecognition of uncertain tax positions. FIN 48 permits us to recognize the amount of tax benefit that has a greater than 50 percent likelihood of being ultimately realized upon settlement. It further requires that a change in judgment related to the expected ultimate resolution of uncertain tax positions be recognized in earnings in the quarter of such change.

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

The number of years with open tax audits varies depending on the tax jurisdiction. Our major taxing jurisdictions include the United States (federal and state) and Canada. With limited exceptions, the Company is no longer subject to United States federal examinations by the Internal Revenue Service (IRS) for fiscal years before 2002. The IRS recently concluded field examinations for our 2002 and 2003 fiscal years. A payment of \$24.4 million was made during the first quarter of fiscal 2008 to cover the additional tax liability plus interest related to all agreed adjustments for this audit cycle. The IRS also proposed additional adjustments for the 2002-2003 audit cycle including several adjustments to the tax benefits associated with the sale of minority interests in our GMC subsidiary. We believe we have meritorious defenses and intend to vigorously defend our position. Our potential liability for this matter is significant and, notwithstanding our reserves against this potential liability, an unfavorable resolution could have a material adverse impact on our results of operations and cash flows from operations. We do not expect the amount of our tax reserves for these issues to change in the next 12 months. The IRS initiated its audit of our fiscal 2004 through 2006 tax years during the first quarter of fiscal 2008.

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2007, the FASB approved the issuance of Emerging Issues Task Force Issue No. 06-11 "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" (EITF 06-11). EITF 06-11 requires that tax benefits from dividends paid on unvested restricted shares be charged directly to stockholders' equity instead of benefiting income tax expense. EITF 06-11, which will be effective for us in the first quarter of fiscal 2009, is expected to increase our effective income tax rate by approximately 20 basis points.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of SFAS No. 115" (SFAS 159). This statement provides companies with an option to measure, at specified election dates, many financial instruments and certain other items at fair value that are not currently measured at fair value. A company that adopts SFAS 159 will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This statement also establishes presentation and disclosure requirements

designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This statement is effective for fiscal years beginning after November 15, 2007, which for us is the first quarter of fiscal 2009. We are evaluating the impact of SFAS 159 on our results of operations and financial condition.

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In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). This statement provides a single definition of fair value, a framework for measuring fair value, and expanded disclosures concerning fair value. Previously, different definitions of fair value were contained in various accounting pronouncements creating inconsistencies in measurement and disclosures. SFAS 157 applies under those previously issued pronouncements that prescribe fair value as the relevant measure of value, except SFAS 123R and related interpretations and pronouncements that require or permit measurement similar to fair value but are not intended to measure fair value. This pronouncement is effective for fiscal years beginning after November 15, 2007, which for us is the first quarter of fiscal 2009. We are evaluating the impact of SFAS 157 on our results of operations and financial condition.

NON-GAAP MEASURES

We have included in this MD&A a measure of financial performance that is not defined by GAAP. This non-GAAP measure should be viewed in addition to, and not in lieu of, the comparable GAAP measure.

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. A reconciliation of this measure to the relevant GAAP measure, operating profit, is included in Note 17 to the Consolidated Financial Statements included in this Form 10-Q.

GLOSSARY

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

Derivatives. Financial instruments that we use to manage our risk arising from changes in commodity prices, interest rates, foreign exchange rates, and stock prices.

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

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

Gross margin. Net sales less cost of sales.

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

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

LIBOR. London Interbank Offered Rate

Minority interests. Preferred stock and interests of subsidiaries held by third parties.

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

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Segment operating profit margin. Segment operating profit divided by net sales.

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

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

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 also may 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.

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

Our future results could be affected by a variety of factors, such as: competitive dynamics in the consumer foods industry and the markets for our products, including new product introductions, advertising activities, pricing actions, and promotional activities of our competitors; economic conditions, including changes in inflation rates, interest rates, 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, other intangible assets, or other long-lived assets, or changes in the useful lives of other intangible assets; changes in accounting standards and the impact of significant accounting estimates; product quality and safety issues, including recalls and product liability; changes in 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; volatility in the market value of derivatives used to hedge price risk for certain commodities; benefit plan expenses due to changes in plan asset values and discount rates used to determine plan liabilities; failure of our information technology systems; resolution of uncertain income tax matters; foreign economic conditions, including currency rate fluctuations; and political unrest in foreign markets and economic uncertainty due to terrorism or war.

You should also consider the risk factors that we identify on pages 5 through 10 of our Annual Report on Form 10-K for the fiscal year ended May 27, 2007, which could also affect our future results.

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in our market risk during the first quarter of fiscal 2008. For additional information, see Item 7A of our Annual Report on Form 10-K for the fiscal year ended May 27, 2007.

Item 4. Controls and Procedures.

We, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of August 26, 2007, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is (1) recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during our fiscal quarter ended August 26, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table sets forth information with respect to shares of our common stock that we purchased during the three fiscal periods ended August 26, 2007.

<u>Period</u>	<u>Total Number of Shares Purchased(a)</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of a Publicly Announced Program(b)</u>	<u>Maximum Number of Shares that may yet be Purchased Under the Program(b)</u>
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May 28, 2007 – July 1, 2007	7,050,581	\$ 59.86	7,050,581	59,656,088
July 2, 2007 – July 29, 2007	9,468,948	\$ 58.04	9,468,948	50,187,140
July 30, 2007 – Aug. 26, 2007	4,418,815	\$ 56.30	4,418,815	45,768,325
Total	20,938,344	\$ 58.28	20,938,344	45,768,325

- (a) The total number of shares purchased includes: (i) 88,200 shares purchased from the ESOP fund of our 401(k) savings plan, (ii) 83,344 shares of restricted stock withheld for the payment of withholding taxes upon vesting of restricted stock, and (iii) 20,766,800 shares purchased on the open market. These amounts include 18,100 shares acquired at an average price of \$57.31 for which settlement occurred after August 26, 2007.
- (b) On December 11, 2006, our Board of Directors approved and we announced an authorization for the repurchase of up to 75,000,000 shares of our common stock. Purchases can be made in the open market or in privately negotiated transactions, including the use of call options and other derivative instruments, Rule 10b5-1 trading plans, and accelerated repurchase programs. The Board did not specify an expiration date for the authorization.

Item 6. Exhibits.

Exhibit 4.1	Fourth Amended and Restated Limited Liability Company Agreement of General Mills Cereals, LLC, dated as of August, 1, 2007, by and among GM Cereals Operations, Inc., RBDB, Inc., Capital Trust and GM Cereals Holdings, Inc. (incorporated herein by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K filed August 3, 2007)
Exhibit 10.1	General Mills Separation Pay and Benefits Program for Officers
Exhibit 10.2	Credit Agreement, dated as of August 3, 2007, among General Mills, Inc., the several financial institutions from time to time party to the agreement, and JP Morgan Chase Bank, N.A., as Administrative Agent (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed August 7, 2007)
Exhibit 12.1	Computation of Ratio of Earnings to Fixed Charges
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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 thereunto duly authorized.

Date September 19, 2007

GENERAL MILLS, INC.
(Registrant)

/s/ S. S. Marshall
S. S. Marshall
Senior Vice President,
General Counsel and Secretary

Date September 19, 2007

/s/ K. L. Thome

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Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
10.1	General Mills Separation Pay and Benefits Program for Officers
12.1	Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

General Mills Separation Pay and Benefits Program for Officers

Introduction

This document sets forth the Separation Pay and Benefits Program for Officers (the “Program”) of General Mills, Inc. (the “Company”). The provisions of the Program reflect a comprehensive review undertaken by the Company of its severance policies and programs, and will govern terminations of employment following the effective date (the “Effective Date”) of the Program’s adoption by the Company’s Board of Directors (the “Board”).

The provisions of the Program are set forth in two independent component plans. Plan A of the Program (“Plan A”) formalizes the Company’s existing severance practices, and Plan B of the Program (“Plan B”) sets forth certain provisions that will apply in respect of terminations of employment of certain officers following a Change of Control (as defined herein).

The Program serves as the umbrella document governing severance policies of the Company. However, each of Part A and Part B, as subplans of the Program, constitute independent employee benefit plans and shall be treated for purposes of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), as distinct plans.

The Program supersedes any severance plans, policies and/or practices currently in effect at the Company and its Affiliates with respect to Participants (as defined in Plan A) and Change of Control Participants (as defined in Plan B).

Plan A

ARTICLE I PURPOSE

This Plan A is intended to formalize the Company’s separation pay and benefits policy. The purpose of this Plan A is to provide transitional pay and benefits for a limited period of time to certain terminated employees. The Company reserves the right to amend or terminate this Plan A by action of the Committee (as defined below) in accordance with the amendment and termination provisions set forth below.

ARTICLE II DEFINITIONS

As used in this Plan A, the following words and phrases shall have the following respective meanings (unless the context clearly indicates otherwise):

- 2.1 Administrator. The Company.
- 2.2 Affiliate. An Affiliate of the Company shall mean any company controlled by, controlling, or under common control with, the Company.
- 2.3 Annual Base Salary. With respect to a Participant, the annual base salary in effect immediately prior to such Participant’s Date of Termination.
- 2.4 Average Annual Bonus. The average of the applicable Participant’s annual bonuses paid under the Incentive Plan, for each of the last three full fiscal years (or such lesser number of years for which such Participant was employed by the Company) prior to the year during which occurs the Participant’s Date of Termination.
- 2.5 Cause. With respect to any Participant, any definition of “Cause” set forth in an employment, severance, or similar agreement between such Participant and the Company (or an Affiliate thereof), or, if no such definition exists, the occurrence of any of the following:
 - (a) the Participant’s conviction of, or plea of nolo contendere with respect to, a felony;
 - (b) the improper disclosure by the Participant of proprietary information or trade secrets of the Company and its Affiliates;
 - (c) the performance by the Participant of his or her employment duties in an unsatisfactory manner, including, without limitation, willful failure to perform, or negligent performance of, one’s employment duties;
 - (d) the falsification by the Participant of any records or documents of the Company and its Affiliates;

(e) the dishonesty, willful misconduct, misappropriation, breach of fiduciary duty, fraud, or embezzlement of the Participant with regard to the Company and its Affiliates;

(f) the violation by the Participant of any employment rules, policies (including the Company's Code of Conduct) or procedures of the Company and its Affiliates;

(g) any intentional or gross misconduct of the Participant that injures the business or reputation of the Company and its Affiliates; or

(h) the violation of any federal or state securities law, rule or regulation governing the business of the Company and its Affiliates or the constitution, by-laws, rules or regulations of any securities or commodities exchange or self-regulatory organization governing the business of the Company and its Affiliates or of which the Company is a member.

2.6 Change of Control. As defined in Part B of this Program.

2.7 Code. The Internal Revenue Code of 1986, as amended from time to time.

2.8 Committee. The Compensation Committee of the Board.

2.9 Company. As defined in the preamble and in Section 6.2 of this Plan A.

2.10 Comparable Job. A job offering (i) no reduction in base salary of more than 10%, (ii) no reduction in the annual cash compensation opportunity (i.e., base salary plus target bonus) of more than 10% (iii) no material adverse reduction in duties and responsibilities, and (iv) no requirement of relocation to a job location more than 50 miles from the Participant's then-current job location.

2.11 Date of Termination. The applicable Participant's last day of active employment (or last day of Leave of Absence), as designated by the Company.

2.12 Incentive Plan. The Company's Executive Incentive Plan, or any predecessor or successor plan.

2.13 Interest. Interest on the applicable delayed payment equal to the "prime rate" (as reported in the Wall Street Journal on the Date of Termination) plus 1%, which interest shall be calculated on the basis of a 365-day year and the actual number of days elapsed from and including the Date of Termination through, but excluding, the date of payment.

2.14 Leave of Absence. Any absence from work authorized by the Company or an Affiliate thereof, whether paid or unpaid, including but not limited to, absences because of bereavement, extended care of a family member, personal emergencies, sick time, disability (short-term or long-term), education, vacation, sabbatical, worker's compensation, jury duty and active military service. The duration of the applicable Leave of Absence, including the date when the Participant is required to return to his or her active duties, shall be determined in the Company's sole discretion, subject to applicable legal requirements.

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2.15 Multiple. With respect to any Participant, such Participant's "Multiple" shall be the number so designated on Appendix A of this Plan A. A Multiple may be either a whole number or a fractional number.

2.16 Participant. Any employee of the Company and its Affiliates at the level of Vice President or above and any other employees of the Company and its Affiliates designated as Participants on Appendix A of this Plan A.

2.17 Section 409A. Section 409A of the Code.

2.18 Separation Benefits. The amounts and benefits payable or required to be provided in accordance with Section 4.3 of this Plan A.

ARTICLE III ELIGIBILITY

3.1 Participation. A Participant shall cease to be a Participant in this Plan A if such Participant ceases to be employed by the Company and its Affiliates under circumstances not entitling such Participant to Separation Benefits or if such Participant ceases to be employed by the Company and its Affiliates at the level of Vice President or above.

3.2 No Termination of Participation Following Termination Entitling Participant to Benefits Under Plan. Notwithstanding Section 3.1 of this Plan A, a Participant who is entitled, as a result of a cessation of employment while a Participant, to receive benefits under this Plan A, shall remain a Participant in this Plan A (and shall not be subject to a reduction of such Participant's Multiple) until the amounts and benefits payable under this Plan A have been paid or provided to such Participant in full.

ARTICLE IV SEPARATION BENEFITS

4.1 Right to Separation Benefits. A Participant shall be entitled to receive from the Company the Separation Benefits as provided in Section 4.3 of this Plan A if (a) such Participant's employment with the Company and its Affiliates has been terminated for a reason specified in Section 4.2(a) of this Plan A, (b) such Participant has not refused an offer of employment by the Company and its Affiliates for a Comparable Job, and (c) such Participant executes (and does not revoke), in a form that is satisfactory to the Company, such documents as the Company may require, which shall include a separation agreement

that contains an effective general release of all known and unknown claims against the Company in a form consistent with the Company's past practice, and may include provisions binding the Participant to confidentiality, cooperation with litigation, non-disparagement, non-competition, and/or non-solicitation agreements.

4.2 Termination of Employment.

(a) Terminations Which Give Rise to Separation Benefits Under This Plan A. Any termination under the following circumstances shall be deemed to be a termination for a reason specified in Section 4.2(a) of this Plan A: any involuntary termination of employment initiated

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by the Company and its Affiliates (excluding any transfer to the Company or an Affiliate thereof) other than for Cause, Disability (as defined below) or as a result of the Participant's Death. A termination of employment will not be deemed to be described by this paragraph if it occurs in connection with a transfer by the Company and its Affiliates of assets or stock, and the applicable Participant receives an offer of a Comparable Job with the transferee of such assets or stock (whether before, at the time of, or immediately after the closing of such transfer). In the case of an involuntary termination of employment initiated by the Company and its Affiliates other than for Cause, the applicable Participant must remain employed (or on approved Leave of Absence) until the date of termination communicated by the Company in order for the termination to qualify as a termination described by this paragraph. A termination of employment will not be deemed to be described by this paragraph if it follows a period of community assignment.

(b) Terminations Which Do Not Give Rise to Separation Benefits Under This Plan A. If a Participant's employment is terminated for Cause, Disability (within the meaning of the Company's long-term disability plan applicable to the Participant), as a result of the Participant's death, or due to voluntary termination, such termination shall not be deemed to be a termination for a reason specified in Section 4.2(a) of this Plan A and the Participant shall not be entitled to Separation Benefits under this Plan A.

4.3 Separation Benefits.

(a) If a Participant's employment is terminated under the circumstances set forth in Section 4.1 of this Plan A entitling such Participant to Separation Benefits, the Company shall pay or provide, as the case may be, to such Participant the amounts and benefits set forth in items (i) through (iii) below (the "Separation Benefits"):

(i) the Company shall pay to the Participant the following amounts:

(A) the Participant's base salary through the Date of Termination to the extent not theretofore paid; and

(B) the product of (1) the actual annual bonus, if any, the Participant would have received for the fiscal year during which the Date of Termination occurs had such Participant remained employed through the conclusion of such year (based on actual performance and determined by the Company in its good faith discretion) and (2) a fraction, the numerator of which is the number of days in such year through the Date of Termination, and the denominator of which is 365, payable following the conclusion of such year but in no event more than two-and-a-half months following such conclusion; and

(C) an amount equal to the product of (1) the Multiple and (2) the sum of (x) the Participant's Annual Base Salary (or, if the Date of Termination follows a Change of Control and the Participant's base salary was higher immediately prior to such Change of Control, such higher salary) and (y) the Average Annual Bonus, such amounts to be

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paid ratably in accordance with the Company's regular payroll practices over a period of years equal to the applicable Multiple;

(ii) for a number of years after the Participant's Date of Termination equal to the Multiple, the Company shall cause the Company's welfare plans to continue medical and dental benefits to the Participant and/or the Participant's family on the same terms applicable to similarly situated active employees, with the Participant's share of the premiums no greater than that applicable to such similarly situated active employees (or, if the terms of the applicable welfare plans do not permit such continued provision of medical and/or dental benefits, shall pay to the Participant an amount sufficient on an after-tax basis to permit the Participant and/or the Participant's family to obtain such benefits at the level required pursuant to this sentence); provided, however, that if the Participant becomes reemployed with another employer and is eligible to receive medical and/or dental benefits under another employer provided plan, the medical and/or dental benefits, as applicable, described herein shall terminate; and, provided, further, that the benefits provided hereunder shall be provided in such a manner that such benefits (and the costs and premiums thereof) are excluded from the Participant's income for federal income tax purposes. Notwithstanding the foregoing, if the Company reasonably determines that providing continued coverage under one or more of its welfare benefit plans contemplated herein could adversely affect the tax treatment of other participants covered under such plans, or would otherwise have adverse legal ramifications or adverse economic impact, the Company may, in its discretion, provide other insurance coverage substantially similar in the aggregate to the continued coverage otherwise required hereunder; and

(iii) the Company shall, at its sole expense as incurred, provide the Participant with outplacement services, the scope and provider of

which shall be selected by the Company in its sole discretion, provided that such outplacement benefits shall end not later than the first anniversary of the Date of Termination.

Notwithstanding the preceding provisions of this Section 4.3, in the event that the Participant is a "specified employee" (within the meaning of Section 409A) on the Date of Termination and the amounts to be paid within the first six months following the Date of Termination pursuant to Section 4.3(a)(i)(C) of this Plan A exceed the amount referenced in Treas. Regs. Section 1.409A-1(b)(9)(iii)(A) with respect to such Participant, such excess amounts shall be paid, with interest from the date on which payment would otherwise have been made, on the first business day of the first calendar month that begins after the six-month anniversary of such Participant's "separation from service" within the meaning of Section 409A of the Code.

(b) Reductions in Certain Instances.

(i) The Separation Benefits provided under this Plan A shall be reduced (but not below zero) by the amount of any severance or separation pay and benefits and/or salary-based guaranteed compensation payments provided for under the terms of any other written employment, change in control, severance, consulting or similar agreement (including an offer letter) to which the applicable Participant and the Company (or an Affiliate thereof) are party or any other severance plan, policy or arrangement in which

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the Participant participates, or any statutory severance scheme applicable to the Participant, including, without limitation, the Worker Adjustment and Retraining Notification Act of 1988 set forth at 29 U.S.C. § 2101 *et seq.*, or any similar state or local statute to the extent not preempted by ERISA (collectively, "Severance Arrangements"). Nothing in this Plan A shall be construed to provide separation pay or benefits that are duplicative of any separation pay, which shall include the payment of salary-based guaranteed compensation, or benefits provided to a Participant pursuant to any Severance Arrangement. Without limiting the generality of the foregoing, if any federal, state or local law (to the extent not preempted by ERISA), including without limitation, worker's compensation laws (and excluding applicable state or federal laws regarding jury duty or active military service) or any Company policy, benefit or practice, including, without limitation, disability benefits or vacation pay (excluding vacation accrued but unused prior to the Date of Termination) either provides or requires the Company to provide a Participant with income in place of such Participant's salary or vacation pay accruing after the Date of Termination, then the Separation Benefits to which the Participant would have been entitled under this Plan A shall be reduced by the amount of such replacement pay or such post-Date of Termination vacation pay received by the Participant. For clarity, the Company's qualified and non-qualified retirement plans are not considered Severance Arrangements for purposes of this paragraph and amounts payable under this Plan A shall not be reduced pursuant to this paragraph as a result of amounts payable under such qualified and non-qualified retirement plans.

(ii) The Company also reserves the right to offset any separation pay or benefits under this Plan A by any advances, expenses, loans, claims for damages or other monies (including any tax withholding due in respect of payments hereunder or otherwise) the applicable Participant owes the Company or any of its Affiliates (except for any personal or business loan for which the Participant may have contracted with the Company or any of its Affiliates).

(iii) In the event that any payment or benefit under this Plan A would be non-deductible as a result of the application of Section 280G of the Code, such payment or benefit shall be reduced to the maximum amount that may be paid or provided without any payment or benefit to the applicable Participant being non-deductible as a result of the application of Section 280G of the Code.

(iv) If a Participant obtains employment within the Company or any of its Affiliates following a termination entitling such Participant to Separation Benefits and prior to the expiration of the number of weeks of such Separation Benefits, any Separation Benefits will cease immediately.

(v) Notwithstanding the provisions of any other section of this Plan A, Separation Benefits may be discontinued if the applicable Participant is determined by the Administrator (1) to have engaged in conduct at any time while employed by the Company that would have provided a basis for a for-Cause termination, (2) to have violated any of the representations or obligations undertaken by the Participant by executing such documents as the Company may require pursuant to Section 4.1(c) of this Plan A in order for the Participant to be eligible for Separation Benefits under this Plan

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A, or (3) to have engaged in any conduct or act that was injurious, detrimental or prejudicial to the interest of the Company. This paragraph shall have no application following a Change of Control.

ARTICLE V
ADMINISTRATION

5.1 Benefits Unsecured. The separation pay and benefits and costs of this Plan A are payable by the Company out of its general assets, with the exception of any portion of the premiums or costs for continued benefit coverage for which Participants will be responsible. The right of a Participant to receive payments or benefits under this Plan A shall be only that of an unsecured creditor against the assets of the Company and payments and benefits under this Plan A shall be made solely from the assets of the Company. No Participant shall have any right to any specific assets of the Company by virtue of this Plan A.

5.2 Administrator. The general administration of this Plan A and the responsibility for carrying out its provisions shall be vested in the Administrator. The Company shall be the "Administrator" within the meaning of Section 3(16) of ERISA and shall have all the responsibilities and duties

contained therein. The Administrator shall have the authority to appoint and delegate its responsibilities under this Plan A and to designate other persons to carry out any of its responsibilities under this Plan A. The Administrator and/or its designee(s) shall have such discretionary powers as are necessary or appropriate to discharge his, her or its duties, including but not limited to, discretionary interpretation and construction of this Plan A, and the determination of all questions of eligibility, participation and benefits and all other related or incidental matters, provided that during the two-year period following a Change of Control (and thereafter, to the extent the issue in question relates to a termination of employment during such period), decisions of the Administrator shall be subject to de novo review in the courts. The Administrator's (and/or its designee's) decision will be binding on the applicable Participant, the Participant's spouse or other dependent or beneficiary and all other interested parties, subject to review or correction only to the extent that such a decision, determination or construction is shown by clear and convincing evidence to be arbitrary and capricious, provided that during the two-year period following a Change of Control (and thereafter, to the extent the issue in question relates to a termination of employment during such period), decisions of the Administrator shall be subject to de novo review in the courts. The Administrator and/or its designee may adopt rules and regulations of uniform applicability in his/her interpretation and implementation of this Plan A. In order for a Participant to be eligible for Separation Benefits, the Administrator and/or its designee shall require each Participant to execute (and not revoke), such documents as the Administrator and/or its designee may require pursuant to Section 4.1(c) of this Plan A and to provide proof of any information that the Administrator finds necessary or desirable for the proper administration of this Plan A.

5.3 Claims Procedures. Any claim for benefits under this Plan A must be submitted in writing to the Administrator. If a claim for benefits under this Plan A is denied in whole or in part, the claimant (or his or her authorized representative) will be notified by the Administrator within 90 days of the date the claim is delivered to the Administrator, unless special circumstances require an extension of time for processing the claim, in which case the claimant will be provided written notification, prior to the termination of the initial 90-day period, of the

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special circumstances requiring an extension and the date (not to exceed a period of an additional 90 days) by which the Administrator expects to render a final decision. The notification will be written in understandable language and will state (a) specific reasons for denial of the claim, (b) specific references to any provision of this Plan A on which the denial is based, (c) a description (if appropriate) of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary, and (d) an explanation of this Plan A's review procedure and the time limits applicable to such procedures, including the claimant's right to bring a civil action under section 502(a) of ERISA following an adverse benefit determination on review. A claim that is not acted upon within 90 days may be deemed by the claimant to have been denied.

5.4 Review of Claim Denials. Within 60 days after a claim has been denied, or deemed denied, the claimant or his or her authorized representative may make a request for a full and fair review by submitting to the Administrator a written statement (a) requesting a review of the denial of the claim, (b) setting forth all of the grounds upon which the request for review is based and any facts in support thereof, and (c) setting forth any issue or comments which the claimant deems relevant to the claim. The claimant or his or her authorized representative, shall have, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to the claimant's claim for benefits and may submit comments, documents, records and other information relating to the claim in writing. The review shall take into account all comments, documents, records and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The Administrator shall make a decision on review within 60 days after the receipt of the claimant's request for review, unless the Administrator determines that special circumstances require an extension of time for processing a review is required, in which case the claimant will be notified and a decision will be made within 120 days of receipt of the request for review. If the Administrator determines that an extension of time is required, written notice shall be furnished to the claimant prior to the termination of the initial 60-day period which shall indicate the special circumstances requiring the extension and the date by which the Administrator expects to render a final decision. The decision will be in writing and in understandable language. The decision shall set forth (i) specific reasons for the denial of the claim, (ii) specific references to any plan provision on which the benefit determination is based, (iii) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits, and (iv) a statement describing any voluntary appeal procedures offered by this Plan A and the claimant's right to obtain information about such procedures and a statement of the claimant's right to bring an action under section 502(a) of ERISA. The decision of the Administrator on review shall be final and conclusive upon all persons unless it is shown by clear and convincing evidence to be arbitrary and capricious. The claimant may pursue a grievance in a federal court if he or she is improperly denied any right or remedy to which he or she is entitled under the Claim Review Procedure. No legal action may be brought to recover benefits allegedly due under this Plan A unless a claimant has exhausted the Claim Review Procedure set forth in this Plan A; and in no event may a claimant commence such a legal action more than one year from the date of the claim denial.

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ARTICLE VI MISCELLANEOUS

6.1 Amendment and Termination. This Plan A may be terminated or amended in any respect by resolution adopted by a majority of the Committee, provided that this Plan A may not be terminated or amended in any manner which would adversely affect the rights or potential rights of Participants if such action is taken in connection with, in anticipation of, during the six-month period prior to, or during the two-year period following, a Change of Control. No amendment or termination shall give the Company the right to recover any amount paid to a Participant prior to the date of such action or to cause the reduction, cessation or discontinuance of Separation Benefits to any person or persons under this Plan A already receiving or entitled to receive separation pay or benefits under this Plan A. No vested rights are provided under this Plan A, subject to Section 3.2 of this Plan A and to the Change of Control-related limitations set forth above on amendments and terminations.

6.2 Successors. This Plan A shall bind any successor of the Company, its assets or its businesses (whether direct or indirect, by purchase, merger, consolidation or otherwise), in the same manner and to the same extent that the Company would be obligated under this Plan A if no succession had taken place. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and to honor this Plan A in the same manner and to the same extent that the Company would be required to honor it if no such succession had taken place. The term "Company," as used in this Plan A, shall mean the Company as hereinbefore defined and any successor or assignee to the business or assets which by reason hereof becomes bound by this Plan A.

6.3 Compliance With Law. Notwithstanding anything else contained in this Plan A, the Company shall not be required to make any payment or take any other action prohibited by law, including, but not limited to, any regulation, directive, or order of federal or state regulatory authorities.

6.4 Employment Status. This Plan A does not constitute a contract of employment or impose on any Participant, the Company, or any Affiliate of the Company any obligation to retain any Participant as an employee.

6.5 Benefits Not Assignable. Subject to Section 4.3 of this Plan A, payments and benefits under this Plan A are not assignable or subject to alienation since they are not vested and are solely for the support and maintenance of the applicable Participant. Likewise, such payments and benefits shall not be subject to attachment by creditors or through legal process against the Company, the Administrator or any Participant.

6.6 Tax Withholding. The Company may withhold from any amounts payable under this Plan A such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

6.7 Construction. The invalidity or unenforceability of any provision of this Plan A shall not affect the validity or enforceability of any other provision of this Plan A, which shall

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remain in full force and effect, and any prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. The captions of this Plan A are not part of the provisions hereof and shall have no force or effect.

6.8 Governing Law. This Plan A is subject to ERISA, but is intended to qualify as a plan which is unfunded and is maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees. To the extent not superseded by federal law, this Plan A shall be governed by and construed in accordance with the laws of the State of Minnesota, without reference to principles of conflict of laws.

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Appendix A of Plan A

With respect to the Participants individually listed below, the applicable Multiple shall be the Multiple set forth next to such Participant's name. For other Participants, the applicable Multiple shall be determined based on such Participant's position immediately prior to the Date of Termination, in accordance with the following table:

<u>Position</u>	<u>Multiple</u>
Vice President	1.0
Senior Vice President	1.5
Executive Vice President and Above	2.0

Notwithstanding the foregoing table, the Multiples for the following Participants shall be as set forth below:

<u>Participant</u>	<u>Multiple</u>

Plan B

ARTICLE I
PURPOSE

The Board has determined that it is in the best interests of the Company and its shareholders to assure that the Company will have the continued dedication of its senior executives, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined below) of the Company. The Board believes it is essential to diminish the inevitable distraction to its senior executives by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage its senior executives' full attention and dedication to the Company currently and in the event of any threatened or pending Change of Control, and to provide its senior executives with compensation and benefit arrangements upon a Change of Control which ensure that the compensation and benefits expectations of its senior executives will be satisfied and which are competitive with those of other corporations. This Plan B is intended to serve the aforementioned purposes. The Company reserves the right to amend or terminate this Plan B by action of the Committee (as defined below) in accordance with the amendment and termination provisions set forth below.

ARTICLE II
DEFINITIONS

As used in this Plan B, the following words and phrases shall have the following respective meanings (unless the context clearly indicates otherwise):

2.1 **Affiliate**. An Affiliate of the Company shall mean any company controlled by, controlling, or under common control with, the Company.

2.2 **Annual Base Salary**. With respect to a Change of Control Participant, twelve times the higher of the monthly base salary paid or payable, including any base salary which has been earned but deferred, to such Change of Control Participant by the Company and its Affiliates in respect of the month immediately preceding the month in which (i) the Change of Control occurs; or (ii) such Change of Control Participant's Date of Termination occurs.

2.3 **Average Annual Bonus**. The average of the applicable Change of Control Participant's annual bonuses paid or payable under the Incentive Plan (including amounts earned but deferred), for each of the last three full fiscal years (or such lesser number of years for which such Change of Control Participant was employed by the Company) prior to the Change of Control (annualized in the event that such Change of Control Participant was not employed by the Company for the whole of any such fiscal year and not paid a full year's bonus for such year). In the case of a Change of Control Participant who has not yet received any bonuses, Average Annual Bonus shall equal such Change of Control Participant's target bonus, as calculated using a 1.50 corporate/unit rating and the target individual rating at the Change of Control Participant's level under the Incentive Plan for the fiscal year during which occurs the Change of Control.

2.4 **Change of Control**. Any of the following events:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 20% or more of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "**Outstanding Company Voting Securities**"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (1) any acquisition directly from the Company; (2) any acquisition by the Company; (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; or (4) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 2.4; and provided, further, that if any Person's beneficial ownership of the Outstanding Company Voting Securities reaches or exceeds 20% as a result of a transaction described in clause (i) or (ii) above, and such Person subsequently acquires beneficial ownership of additional voting securities of the Company, such subsequent acquisition shall be treated as an acquisition that causes such Person to own 20% or more of the Outstanding Company Voting Securities; or

(b) Individuals who, as of the date hereof, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its subsidiaries (each, a “Business Combination”); excluding however such a Business Combination pursuant to which (i) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Voting Securities, (ii) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting

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from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

2.5 Change of Control Multiple. With respect to any Change of Control Participant, such Change of Control Participant’s “Change of Control Multiple” shall be the number so designated on Appendix A to this Plan B. A Change of Control Multiple may be either a whole number or a fractional number.

2.6 Change of Control Participant. Any employee of the Company and its Affiliates who is designated by the Committee as a Change of Control Participant (all Change of Control Participants are listed on Appendix A to this Plan B).

2.7 Change of Control Separation Benefits. The amounts and benefits payable or required to be provided in accordance with Section 4.3 of this Plan B.

2.8 Code. The Internal Revenue Code of 1986, as amended from time to time.

2.9 Committee. The Compensation Committee of the Board.

2.10 Company. As defined in the preamble and in Section 6.1 of this Plan B.

2.11 Date of Termination. If a Change of Control Participant’s employment is terminated by the Company for Cause, or by the Change of Control Participant for Good Reason, the Date of Termination shall be the date of receipt of the Notice of Termination (as described in Section 4.2(c) of this Plan B) or any later date specified therein, as the case may be. If a Change of Control Participant’s employment is terminated by the Company other than for Cause or Disability, the Date of Termination shall be the date on which the Company notifies such Change of Control Participant of such termination. If a Change of Control Participant’s employment is terminated by the Change of Control Participant without Good Reason, the Date of Termination shall be the date on which the Change of Control Participant notifies the Company of such termination. If a Change of Control Participant’s employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of such Change of Control Participant or the Disability Effective Date, as the case may be.

2.12 Incentive Plan. The Company’s Executive Incentive Plan, or any predecessor or successor plan.

2.13 Interest. Interest on the applicable delayed payment equal to the “prime rate” (as reported in the Wall Street Journal on the Date of Termination (or, if it is not reported on such date, on the next following business day on which it is reported)) plus 1%, which interest shall be

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calculated on the basis of a 365-day year and the actual number of days elapsed from and including the Date of Termination through, but excluding, the date of payment.

2.14 Section 409A. Section 409A of the Code.

ARTICLE III
ELIGIBILITY

3.1 Participation. Any individual who is listed on Appendix A of this Plan B shall be a Change of Control Participant in this Plan B. Appendix A of this Plan B may be amended by the Committee by adding or removing Change of Control Participants or by modifying Change of Control Multiples, provided that no Change of Control Participant may be so removed nor may any Change of Control Multiple be so reduced (a) in connection with or in anticipation of a Change of Control or during the two-year period following a Change of Control or (b) subject to Section 3.2(b) of this Plan B, without providing the applicable Change of Control Participant at least one year's notice of such removal or reduction.

3.2 Duration of Participation. A Change of Control Participant shall cease to be a Change of Control Participant in this Plan B if (a) such Change of Control Participant is removed from Appendix A of this Plan B as permitted by Section 3.1 of this Plan B or (b) such Change of Control Participant ceases to be employed by the Company and its Affiliates under circumstances not entitling such Change of Control Participant to Change of Control Separation Benefits.

3.3 No Termination of Participation Following Termination Entitling Change of Control Participant to Benefits Under Plan. Notwithstanding Sections 3.1 and 3.2 of this Plan B, a Change of Control Participant who is entitled, as a result of a cessation of employment while a Change of Control Participant, to receive benefits under this Plan B shall remain a Change of Control Participant in this Plan B (and shall not be subject to a reduction of such Change of Control Participant's Change of Control Multiple) until the amounts and benefits payable under this Plan B have been paid or provided to such Change of Control Participant in full.

ARTICLE IV SEPARATION BENEFITS

4.1 Right to Change of Control Separation Benefits. A Change of Control Participant shall be entitled to receive from the Company the Change of Control Separation Benefits as provided in Section 4.3 of this Plan B if (a) a Change of Control has occurred, (b) such Change of Control Participant's employment with the Company and its Affiliates has been terminated for any reason specified in Section 4.2(a) of this Plan B, and (c) such termination occurred either (i) before such Change of Control at the request of a third party who had taken steps reasonably calculated to effect such Change of Control or otherwise arose in connection with or anticipation of such Change of Control or (ii) after such Change of Control and on or before the second anniversary thereof.

4.2 Termination of Employment.

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(a) Terminations Which Give Rise to Change of Control Separation Benefits Under This Plan. Any termination under the following circumstances shall be deemed to be a termination for a reason specified in this Section 4.2(a):

(i) any termination of employment by the Company and its Affiliates (excluding any transfer to the Company or an Affiliate thereof) other than for Cause or Disability; or

(ii) any termination of employment by a Change of Control Participant for Good Reason. For purposes of this Plan B, "Good Reason" shall mean:

(A) the assignment to the applicable Change of Control Participant of any duties inconsistent in any material respect with such Change of Control Participant's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities, as in effect prior to the Change of Control (measured by reference to the most significant of those held, exercised, and assigned during the 180-day period immediately preceding the Change of Control), or any other action which results in a material diminution in such position, authority, duties or responsibilities (whether or not occurring solely as a result of the Company's ceasing to be a publicly traded entity), excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by such Change of Control Participant;

(B) a decrease in the applicable Change of Control Participant's base salary below the base salary in effect immediately prior to the Change of Control;

(C) a failure, for any fiscal year, to provide the applicable Change of Control Participant (no later than two and a half months following such fiscal year, subject to any deferral elected by the Change of Control Participant on terms compliant with Section 409A) with an annual bonus at least equal to the Average Annual Bonus, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied promptly after receipt of notice thereof given by the Change of Control Participant;

(D) a decrease in the aggregate long-term incentive opportunities (including equity- and cash-based programs) below the greatest of those provided to the applicable Change of Control Participant under the programs in which such Change of Control Participant participated any time during the 180-day period immediately preceding the Change of Control;

(E) the Company's requiring the applicable Change of Control Participant to be based at any office or location 50 or more miles from the location where such Change of Control Participant was employed

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immediately preceding the Change of Control or the Company's requiring the applicable Change of Control Participant to travel on Company business to a substantially greater extent than required immediately prior to the Change of Control; or

(F) any failure by the Company to comply with and satisfy Section 6.1 of this Plan B.

For purposes of this Section 4.2(a) of this Plan B, (x) a Change of Control Participant's ability to terminate employment for Good Reason shall be conditioned on the Change of Control Participant providing notice of the event or action giving rise to the right to terminate for Good Reason within 30 days of becoming aware of such event or action and the Company's failing to cure such event or action, if curable, within 30 days of receipt of such notice, (y) any good faith determination of "Good Reason" made by the Change of Control Participant shall be conclusive, and (z) a Change of Control Participant's mental or physical incapacity following the occurrence of an event described above in clauses (A) through (F) of Section 4.2(a)(ii) shall not affect such Change of Control Participant's ability to terminate employment for Good Reason.

(b) Terminations Which Do Not Give Rise to Change of Control Separation Benefits Under This Plan. If a Change of Control Participant's employment is terminated for Cause or Disability (as those terms are defined below), as a result of the Change of Control Participant's death, or due to voluntary termination other than for Good Reason, such termination shall not be deemed to be a termination for a reason specified in Section 4.2(a) of this Plan B and the Change of Control Participant shall not be entitled to Change of Control Separation Benefits under this Plan B, regardless of the occurrence of a Change of Control; provided, however, that in the event of any such termination during the two-year period following a Change of Control, the Change of Control Participant (or the Change of Control Participant's estate, as applicable) shall be entitled to receive Accrued Obligations (except that in the event of a termination by the Company for Cause or by the Change of Control Participant without Good Reason, Accrued Obligations shall not for purposes of this sentence include the amount described in Section 4.3(a)(i)(A)(2) of this Plan B), provided that in the event that the Change of Control Participant is a "specified employee" (within the meaning of Section 409A) on the Date of Termination and the termination is not due to the Change of Control Participant's death, the portion of Accrued Obligations described in Section 4.3(a)(i)(A)(2) of this Plan B shall be paid, with Interest from the Date of Termination, on the first business day after the date that is six months following such Change of Control Participant's "separation from service" within the meaning of Section 409A of the Code. In addition, in the event of such a termination that is due to death or Disability, the applicable Change of Control Participant (or such Change of Control Participant's estate and/or beneficiaries, as applicable) shall be entitled to receive death or disability benefits, as applicable, at least equal to the most favorable benefits provided by the Company and its Affiliates under such plans, programs, practices and policies relating to death or disability benefits, as applicable, as in effect with respect to other peer executives and their beneficiaries at any time during the 180-day period immediately preceding the Change of Control or, if more favorable to the applicable Change of Control Participant (or such Change of Control Participant's estate and/or beneficiaries, as applicable), as in effect on the date of the Change of Control Participant's death

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or disability with respect to other peer executives of the Company and its Affiliates and their beneficiaries.

(i) A termination for "Disability" shall have occurred where the applicable Change of Control Participant is absent from such Change of Control Participant's duties with the Company and its Affiliates on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to such Change of Control Participant or such Change of Control Participant's legal representative. In such event, such Change of Control Participant's employment with the Company and its Affiliates shall terminate effective on the 30th day (the "Disability Effective Date") after receipt of the applicable Notice of Termination (as defined in Section 4.2(c) of this Plan B) by the Change of Control Participant, provided that, within the 30 days after such receipt, the Change of Control Participant shall not have returned to full-time performance of the Change of Control Participant's duties.

(ii) A termination for "Cause" shall have occurred where the applicable Change of Control Participant is terminated because of:

(A) the willful and continued failure of the Change of Control Participant to perform substantially the Change of Control Participant's duties with the Company and its Affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Change of Control Participant by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or the Chief Executive Officer believes that the Change of Control Participant has not substantially performed the Change of Control Participant's duties, or

(B) the Change of Control Participant's conviction of, or plea of guilty or no contest to, a felony, or

(C) the Change of Control Participant's misappropriation or theft of Company assets, or

(D) the willful engaging by the Change of Control Participant in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

For purposes of this Section 4.2(b)(ii), no act or failure to act, on the part of the Change of Control Participant, shall be considered "willful" unless it is done, or omitted to be done, by the Change of Control Participant in bad faith or without reasonable belief that the Change of Control Participant's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority (A) given pursuant to a resolution duly adopted by the Board, or if the Company is not the ultimate parent corporation of the Company and its Affiliates and is not publicly traded, the board of directors of the ultimate parent of the Company (the

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“Applicable Board”), (B) except with respect to an act or failure to act of the Chief Executive Officer, upon the instructions of the Chief Executive Officer of the Company or a senior officer of the Company who is senior to the applicable Change of Control Participant, or (C) based upon the advice of counsel for the Company, shall be conclusively presumed to be done, or omitted to be done, by the Change of Control Participant in good faith and in the best interests of the Company. The cessation of employment of the Change of Control Participant shall not be deemed to be for Cause unless and until there shall have been delivered to the Change of Control Participant a copy of a resolution duly adopted by the affirmative vote of not less than a majority of the members of the Applicable Board who are not officers or employees of the Company at a meeting of the Applicable Board called and held for such purpose (after reasonable notice is provided to the Change of Control Participant and the Change of Control Participant is given an opportunity, together with counsel for the Change of Control Participant, to be heard before the Applicable Board), finding that, in the good faith opinion of the board, the Change of Control Participant is guilty of the conduct described in this Section 4.2(b)(ii), and specifying the particulars thereof in detail.

(c) Notice of Termination. Any termination by the Company for Cause or Disability, or by a Change of Control Participant for Good Reason, shall be communicated by a Notice of Termination to the other party. For purposes of this Plan B, a “Notice of Termination” means a written notice which (i) indicates the specific termination provision in this Plan B relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Change of Control Participant’s employment under the provision so indicated and (iii) if the Date of Termination is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 days after the giving of such notice (except in the case of a termination due to Disability, in which case such date shall be the Disability Effective Date)). The failure by the Change of Control Participant or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason, Cause, or Disability shall not waive any right of the Change of Control Participant or the Company, respectively, hereunder or preclude the Change of Control Participant or the Company, respectively, from asserting such fact or circumstance in enforcing the Change of Control Participant’s or the Company’s rights hereunder.

4.3 Change of Control Separation Benefits.

(a) If a Change of Control Participant’s employment is terminated under the circumstances set forth in Section 4.1 of this Plan B entitling such Change of Control Participant to Change of Control Separation Benefits, the Company shall pay or provide, as the case may be, to such Change of Control Participant the amounts and benefits set forth in items (i) through (iv) below (the “Change of Control Separation Benefits”):

(i) the Company shall pay to the Change of Control Participant in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

(A) the sum of (1) the Change of Control Participant’s base salary through the Date of Termination to the extent not theretofore paid, and (2) the product of (x) the higher of (A) the Average Annual

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Bonus and (B) the Change of Control Participant’s annual bonus for the last fiscal year (such higher amount being referred to as the “Higher Annual Bonus”) and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365 (the amounts described in this Section 4.3(a)(i)(A), the “Accrued Obligations”); and

(B) the amount equal to the product of (1) the Change of Control Multiple and (2) the sum of (x) the Change of Control Participant’s Annual Base Salary and (y) the Higher Annual Bonus;

(ii) for a number of years after the Change of Control Participant’s Date of Termination equal to the Change of Control Multiple, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall cause its applicable welfare plans to continue medical and dental benefits to the Change of Control Participant and/or the Change of Control Participant’s family at least equal to those which would have been provided to them in accordance with the plans, programs, practices and policies, as in effect immediately prior to the Change of Control, or if more favorable to the Change of Control Participant, as in effect immediately before the Date of Termination; provided, however, that if the Change of Control Participant becomes reemployed with another employer and is eligible to receive medical and/or dental benefits under another employer provided plan, the medical and/or dental benefits, as applicable, described herein shall be secondary to those provided under such other plan during such applicable period of eligibility; and, provided, further, that the benefits provided hereunder shall be provided in such a manner that such benefits (and the costs and premiums thereof) are excluded from the Change of Control Participant’s income for federal income tax purposes. Notwithstanding the foregoing, if the Company reasonably determines that providing continued coverage under one or more of its welfare benefit plans contemplated herein could adversely affect the tax treatment of other participants covered under such plans, or would otherwise have adverse legal ramifications or adverse economic impact, the Company may, in its discretion, provide other insurance coverage substantially similar in the aggregate to the continued coverage otherwise required hereunder.

(iii) the Company shall, at its sole expense as incurred, provide the Change of Control Participant with reasonable outplacement services, the terms, scope and provider of which shall be selected by the Change of Control Participant in the Change of Control Participant’s sole discretion, provided that such outplacement benefits shall end not later than the last day of the second calendar year that begins after the Date of Termination, and the Company shall pay the full cost of such services up to but not exceeding the amount set forth on Appendix A of this Plan B with respect to the applicable Change of Control Participant; and

(iv) to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Change of Control Participant any Other Benefits.

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Notwithstanding the preceding provisions of this Section 4.3, in the event that the Change of Control Participant is a "specified employee" (within the meaning of Section 409A) on the Date of Termination, amounts to be paid pursuant to Sections 4.3(a)(i)(A)(2) and 4.3(a)(ii) of this Plan B shall be paid, with Interest from the Date of Termination, on the first business day after the date that is six months following such Change of Control Participant's "separation from service" within the meaning of Section 409A of the Code.

4.4 Certain Additional Payments by the Company.

(a) Anything in this Plan B to the contrary notwithstanding and except as set forth below, in the event it shall be determined that that any Payment would be subject to the Excise Tax, then the applicable Change of Control Participant shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Change of Control Participant of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, but excluding any income taxes and penalties imposed pursuant to Section 409A of the Code, the Change of Control Participant retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Section 4.4(a), if it shall be determined that the Change of Control Participant is entitled to the Gross-Up Payment, but that the Parachute Value of all Payments does not exceed 110% of the Safe Harbor Amount, then no Gross-Up Payment shall be made to the Change of Control Participant and the amounts payable under this Plan B shall be reduced so that the Parachute Value of all Payments, in the aggregate, equals the Safe Harbor Amount. The reduction of the amounts payable hereunder, if applicable, shall be made in such a manner as to maximize the Value of all Payments actually made to the Change of Control Participant. For purposes of reducing the Payments to the Safe Harbor Amount, only amounts payable under this Plan B (and no other Payments) shall be reduced. If the reduction of the amount payable under this Plan B would not result in a reduction of the Parachute Value of all Payments to the Safe Harbor Amount, no amounts payable under the Agreement shall be reduced pursuant to this Section 4.4(a). The Company's obligation to make Gross-Up Payments under this Section 4.4 shall not be conditioned upon the Change of Control Participant's termination of employment.

(b) Subject to the provisions of Section 4.4(c) of this Plan B, all determinations required to be made under this Section 4.4, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Ernst & Young (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Company and the Change of Control Participant within 15 business days of the receipt of notice from the Change of Control Participant that there has been a Payment, or such earlier time as is requested by the Company. In the event that (i) the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control or (ii) the Accounting Firm is otherwise unable or unwilling to make the determinations required to be made under this Section 4.4, the Company shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the

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Company and the Change of Control Participant. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 4.4(c) of this Plan B and the Change of Control Participant thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Change of Control Participant.

(c) The Change of Control Participant shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Change of Control Participant is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Change of Control Participant shall not pay such claim prior to the expiration of the 30-day period following the date on which he or she gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Change of Control Participant in writing prior to the expiration of such period that it desires to contest such claim, the Change of Control Participant shall: (i) give the Company any information reasonably requested by the Company relating to such claim, (ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company, (iii) cooperate with the Company in good faith in order to effectively contest such claim, and (iv) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Change of Control Participant harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation of the foregoing provisions of this Section 4.4(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the applicable taxing authority in respect of such claim and may, at its sole discretion, either pay the tax claimed to the appropriate taxing authority on behalf of the Change of Control Participant and direct the Change of Control Participant to sue for a refund or contest the claim in any permissible manner, and the Change of Control Participant will prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; *provided, however*, that, if the Company pays such claim and directs the Change of Control Participant to sue for a refund, the Company shall indemnify and hold the Change of Control Participant harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties) imposed with respect to such payment or with respect to any imputed income in connection with such payment; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Change of Control Participant with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to

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issues with respect to which a Gross-Up Payment would be payable hereunder and the Change of Control Participant shall be entitled to settle or contest, as the

case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Change of Control Participant of a Gross-Up Payment or payment by the Company of an amount on the Change of Control Participant's behalf pursuant to Section 4.4(c) of this Plan B, the Change of Control Participant becomes entitled to receive any refund with respect to the Excise Tax to which such Gross-Up Payment relates or with respect to such claim, the Change of Control Participant shall (subject to the Company's complying with the requirements of Section 4.4(c) of this Plan B, if applicable) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after payment by the Company of an amount on the Change of Control Participant's behalf pursuant to Section 4.4(c), a determination is made that the Change of Control Participant shall not be entitled to any refund with respect to such claim and the Company does not notify the Change of Control Participant in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

(e) Any Gross-Up Payment, as determined pursuant to this Section 4.4, shall be paid by the Company within five days of the receipt of the Accounting Firm's determination; provided, however, that (i) the Company may, in its sole discretion, withhold and pay over to the Internal Revenue Service or any other applicable taxing authority, for the benefit of the Change of Control Participant, all or any portion of any Gross-Up Payment, and the Change of Control Participant hereby consents to such withholding, and (ii) the Gross-Up Payment shall be made by the end of the Change of Control Participant's taxable year next following the Change of Control Participant's taxable year in which the related taxes (and any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax are remitted to the Internal Revenue Service or any other applicable taxing authority or, in the case of amounts relating to a claim described in Section 4.4(c) of this Plan B that does not result in the remittance of any federal, state, local and foreign income, excise, social security and other taxes, the calendar year next following the calendar year in which the claim is finally settled or otherwise resolved.

(f) Definitions. The following terms shall have the following meanings for purposes of this Section 4.4.

(i) "Excise Tax" shall mean the excise tax imposed by Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.

(ii) "Parachute Value" of a Payment shall mean the present value as of the date of the change of control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a "parachute payment" under Section 280G(b)(2), as determined by the Accounting Firm for purposes of determining whether and to what extent the Excise Tax will apply to such Payment.

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(iii) A "Payment" shall mean any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the applicable Change of Control Participant, whether paid or payable pursuant to this Plan B or otherwise.

(iv) The "Safe Harbor Amount" means 2.99 times the applicable Change of Control Participant's "base amount," within the meaning of Section 280G(b)(3) of the Code.

(v) "Value" of a Payment shall mean the economic present value of a Payment as of the date of the change of control for purposes of Section 280G of the Code, as determined by the Accounting Firm using the discount rate required by Section 280G(d)(4) of the Code.

4.5 Funding in Certain Circumstances. The Company has established a Supplemental Benefits Trust with Norwest Bank Minnesota, N.A. as trustee to hold assets of the Company under certain circumstances as a reserve for the discharge of the Company's obligations under this Plan B and certain plans of deferred compensation of the Company. In the event of a termination entitling a Change of Control Participant to Change of Control Separation Benefits hereunder, the Company shall be obligated to immediately contribute such amounts to such trust as may be necessary to fully fund all benefits that may become due to such Change of Control Participant under this Article IV (except under Section 4.3(a)(ii) of this Plan B). All assets held in such trust shall remain subject only to the claims of the Company's general creditors whose claims against the Company are not satisfied because of the Company's bankruptcy or insolvency (as those terms are defined in the applicable trust agreement). Change of Control Participants do not have any preferred claim on, or beneficial ownership interest in, any assets of the trust before the assets are paid to them and all rights created under the trust, as under this Plan B, are unsecured contractual claims of Change of Control Participants against the Company. In the event the funding of the trust described in this paragraph does not occur, upon written demand by the applicable Change of Control Participant given at any time after the Date of Termination, the Company shall deposit in trust with an institutional trustee designated by the Change of Control Participant in such demand amounts which may become payable to the Change of Control Participant pursuant to this Article IV (except under Section 4.3(a)(ii) of this Plan B) with irrevocable instructions to pay amounts to the Change of Control Participant when due in accordance with the terms of this Plan B. All fees, expenses and other charges of any trustee of a trust described in this paragraph shall be paid by the Company. The trustee of any trust described in this paragraph shall be entitled to rely conclusively on the Change of Control Participant's written statement as to the fact that payments are due under this Plan B and the amount of such payments.

4.6 Payment Obligations Absolute. Upon a Change of Control, subject to Section 4.4(a) of this Plan B, the obligations of the Company to pay or provide the Change of Control Separation Benefits described in Section 4.3 of this Plan B shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Company and its Affiliates may have against any Change of Control Participant. In no event shall a Change of Control Participant be obligated to seek other employment or take any other action by way of mitigation of the amounts

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payable to a Change of Control Participant under any of the provisions of this Plan B, nor shall the amount of any payment under this Plan B be reduced by any compensation earned by a Change of Control Participant as a result of employment by another employer. Nothing in this Plan B shall prevent or limit a Change of Control Participant's continuing or future participation in any plan, program, policy or practice provided by the Company and its Affiliates and for which the Change of Control Participant may qualify, nor shall anything herein limit or otherwise affect such rights as the Change of Control Participant may have under any contract or agreement with the Company and its Affiliates. Amounts which are vested benefits or which a Change of Control Participant is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its Affiliates at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Plan B. Without limiting the generality of the foregoing, a Change of Control Participant's resignation under this Plan B with or without Good Reason, shall in no way affect such Change of Control Participant's ability to terminate employment by reason of such Change of Control Participant's "retirement" under any compensation and benefits plans, programs or arrangements of the Company and its Affiliates, including without limitation any retirement or pension plans or arrangements or to be eligible to receive benefits under any compensation or benefit plans, programs or arrangements of the Company and its Affiliates or substitute plans adopted by the Company or its successors, and any termination which otherwise qualifies as Good Reason shall be treated as such even if it is also a "retirement" for purposes of any such plan. Notwithstanding the foregoing, if a Change of Control Participant receives payments and benefits pursuant to Section 4.3(a) of this Plan B, such Change of Control Participant shall not be entitled to any severance pay or benefits under any severance plan, program or policy of the Company and its Affiliates (including Plan A of this Program), unless otherwise specifically provided therein in a specific reference to this Plan B.

ARTICLE V CONFIDENTIALITY AND NON-COMPETITION

5.1 Confidentiality. As a condition of participation in this Plan B, all Change of Control Participants agree to abide by the provisions of this Section 5.1. Each Change of Control Participant will hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its Affiliates, and their respective businesses, which shall have been obtained by the Change of Control Participant during the Change of Control Participant's employment by the Company or any of its Affiliates and which shall not be or become public knowledge (other than by acts by the Change of Control Participant or representatives of the Change of Control Participant in violation of this paragraph). After termination of the Change of Control Participant's employment with the Company, the Change of Control Participant shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it.

5.2 Non-Competition. As a condition of participation in this Plan B, all Change of Control Participants agree (and, at the request of the Company, shall enter into a separate written agreement) to abide by the provisions of this Section 5.2 in the event of a termination of employment entitling such Change of Control Participant to Change of Control Separation

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Benefits. During the one-year period immediately following any termination of employment which entitles a Change of Control Participant to Change of Control Separation Benefits hereunder, such Change of Control Participant shall not enter into Competition with the Company. For purposes of this Section, "Competition" means (i) participating, directly or indirectly, as an individual proprietor, partner, stockholder, officer, employee, director, joint venturer, investor, lender, consultant or in any capacity whatsoever (within the United States of America) in a business in competition with any business conducted by the Company or any of its Affiliates, with regard to which the Change of Control Participant worked or otherwise had non-incident responsibilities or had access to non-incident confidential information, while employed by the Company or any of its Affiliates; provided, however, that such participation shall not include: (x) the mere ownership of not more than 1% of the total outstanding stock of a publicly held company; (y) the performance of services for any enterprise to the extent such services are not performed, directly or indirectly, for, or with regard to, a business unit of the enterprise in the aforesaid competition; or (z) any activity engaged in with the prior written approval of the Company; or (ii) directly or indirectly, recruiting, soliciting or inducing, of any employee or employees of the Company or any of its Affiliates to terminate their employment with, or otherwise cease their relationship with, the Company or any of its Affiliates or hiring or assisting another person or entity to hire any employee of the Company or any of its Affiliates. If any restriction set forth with regard to Competition is found by any court of competent jurisdiction to be unenforceable because it extends for too long a period of time or over too great a range of activities or in too broad a geographic area, it shall be interpreted to extend over the maximum period of time, range of activities or geographic area as to which it may be enforceable.

5.3 No Offset. The Company may require that a Change of Control Participant affirm the requirements of this Article V in connection with receipt of Change of Control Separation Benefits hereunder, provided that in no event shall an asserted violation of the provisions of this Article V constitute a basis for deferring or withholding any amounts otherwise payable to a Change of Control Participant under this Plan B.

ARTICLE VI MISCELLANEOUS

6.1 Successors. This Plan shall bind any successor of the Company, its assets or its businesses (whether direct or indirect, by purchase, merger, consolidation or otherwise), in the same manner and to the same extent that the Company would be obligated under this Plan B if no succession had taken place. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and to honor this Plan B in the same manner and to the same extent that the Company would be required to honor it if no such succession had taken place. The term "Company," as used in this Plan B, shall mean the Company as hereinbefore defined and any successor or assignee to the business or assets which by reason hereof becomes bound by this Plan B.

6.2 Amendment and Termination. The Plan may be terminated or amended in any respect by resolution adopted by the Committee, provided, that this Plan B may not, without the consent of all Change of Control Participants, be terminated or amended in any manner which

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would adversely affect the rights or potential rights of Change of Control Participants unless (i) such termination or amendment takes effect only upon the first anniversary of its adoption (and becomes null and void in the event of a Change of Control prior to such first anniversary) and (ii) such termination or amendment is not adopted in connection with, in anticipation of, during the six-month period prior to, or during the two-year period (or such longer period as is necessary to ensure that all potential obligations under this Plan B have been satisfied) following a Change of Control.

6.3 Legal Fees. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses which a Change of Control Participant may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, such Change of Control Participant or others of the validity or enforceability of, or liability under, any provision of this Plan B or any guarantee of performance thereof (including as a result of any contest by the Change of Control Participant about the amount of any payment pursuant to this Plan B), plus in each case Interest on any delayed payment.

6.4 Compliance With Law. Notwithstanding anything else contained herein, the Company shall not be required to make any payment or take any other action prohibited by law, including, but not limited to, any regulation, directive, or order of federal or state regulatory authorities.

6.5 Notices. If notice is to be provided to the Company pursuant to the terms of this Plan B, such notice shall be delivered to the Senior Vice President of Human Resources, or if otherwise designated, the senior human resources officer of the Company.

6.6 Employment Status. This Plan does not constitute a contract of employment or impose on any Change of Control Participant, the Company, or any Affiliate of the Company any obligation to retain any Change of Control Participant as an employee.

6.7 Tax Withholding. The Company may withhold from any amounts payable under this Plan B such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

6.8 Construction. The invalidity or unenforceability of any provision of this Plan B shall not affect the validity or enforceability of any other provision of this Plan B, which shall remain in full force and effect, and any prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. The captions of this Plan B are not part of the provisions hereof and shall have no force or effect. Neither a Change of Control Participant's nor the Company's failure to insist upon strict compliance with any provision of this Plan B or the failure to assert any right a Change of Control Participant or the Company may have hereunder, including, without limitation, the right of the Change of Control Participant to terminate employment for Good Reason, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Plan B.

6.9 Governing Law. This Plan B is not subject to ERISA. This Plan B shall be governed by and construed in accordance with the laws of the State of Minnesota, without reference to principles of conflict of laws.

Appendix A of Plan B

<u>Change of Control Participant</u>	<u>Change of Control Multiple</u>	<u>Outplacement Maximum</u>

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

Dollars in millions	Quarter Ended		Fiscal Year Ended				
	Aug.26,	Aug.27,	May 27,	May 28,	May 29,	May 30,	May 25,
	2007	2006	2007	2006	2005	2004	2003
Earnings before income taxes and after-tax earnings from joint ventures	\$ 396.8	\$ 385.8	\$ 1,631.3	\$ 1,559.0	\$ 1,807.0	\$ 1,502.0	\$ 1,309.6
Distributed income of equity investees	16.4	10.9	45.2	77.4	83.0	60.0	94.6
Plus: Fixed charges (1)	129.3	121.3	496.8	462.4	524.0	569.0	619.1
Plus: amortization of capitalized interest, net of interest capitalized	(0.7)	—	—	1.7	0.9	(4.6)	(4.5)
Earnings available to cover fixed charges	\$ 541.8	\$ 518.0	\$ 2,173.3	\$ 2,100.5	\$ 2,414.9	\$ 2,126.4	\$ 2,018.8
Ratio of earnings to fixed charges	4.19	4.27	4.37	4.54	4.61	3.74	3.26
(1) Fixed charges:							
Interest and minority interest expense, gross	\$ 120.3	\$ 112.4	\$ 460.8	\$ 427.0	\$ 488.2	\$ 537.0	\$ 589.7
Rentals (1/3)	9.0	8.9	36.0	35.4	35.8	32.0	29.4
Total fixed charges	\$ 129.3	\$ 121.3	\$ 496.8	\$ 462.4	\$ 524.0	\$ 569.0	\$ 619.1

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 (excluding interest on taxes) and subsidiary preferred distributions to minority interest holders, plus one-third (the proportion deemed representative of the interest factor) of rent expense.

I, Stephen W. Sanger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of General Mills, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 19, 2007

/s/ Stephen W. Sanger

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

I, Donal L. Mulligan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of General Mills, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 19, 2007

/s/ Donal L. Mulligan

Donal L. Mulligan

Executive Vice

President and

Chief Financial

Officer

I, Stephen W. Sanger, Chairman of the Board and Chief Executive Officer of General Mills, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended August 26, 2007 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 19, 2007

/s/ Stephen W. Sanger

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

I, Donal L. Mulligan, Executive Vice President and Chief Financial Officer of General Mills, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended August 26, 2007 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 19, 2007

/s/ Donal L. Mulligan

Donal L. Mulligan

Executive Vice

President and

Chief Financial

Officer

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