GENERAL MILLS INC
Form 10-Q
March 20, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED February 24, 2013

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

Commission file number: 001-01185

GENERAL MILLS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	41-0274440 (I.R.S. Employer Identification No.)
Number One General Mills Boulevard Minneapolis, Minnesota (Address of principal executive offices)	55426 (Zip Code)

(763) 764-7600

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

Number of shares of Common Stock outstanding as of March 8, 2013: 644,657,589 (excluding 109,955,739 shares held in the treasury).

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General Mills, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Earnings

GENERAL MILLS, INC. AND SUBSIDIARIES

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

	Quarter Ended		Nine-Month Period Ended	
	Feb. 24, 2013	**Feb. 26, 2012**	**Feb. 24, 2013**	**Feb. 26, 2012**
Net sales	**$ 4,430.6**	$ 4,120.1	**$ 13,363.4**	$ 12,591.5
Cost of sales	**2,907.9**	2,612.7	**8,470.1**	8,042.9
Selling, general, and administrative expenses	**874.5**	838.7	**2,624.1**	2,523.3
Restructuring, impairment, and other exit costs	**6.1**	0.1	**18.0**	0.9
Operating profit	**642.1**	668.6	**2,251.2**	2,024.4
Interest, net	**76.6**	96.0	**235.1**	268.6
Earnings before income taxes and after-tax earnings from joint ventures	**565.5**	572.6	**2,016.1**	1,755.8
Income taxes	**174.2**	187.3	**577.7**	574.2
After-tax earnings from joint ventures	**21.3**	15.5	**77.3**	72.7
Net earnings, including earnings attributable to redeemable and noncontrolling interests	**412.6**	400.8	**1,515.7**	1,254.3
Net earnings attributable to redeemable and noncontrolling interests	**14.2**	9.3	**26.8**	12.4
Net earnings attributable to General Mills	**$ 398.4**	$ 391.5	**$ 1,488.9**	$ 1,241.9
Earnings per share - basic	**$ 0.61**	$ 0.61	**$ 2.29**	$ 1.92
Earnings per share - diluted	**$ 0.60**	$ 0.58	**$ 2.24**	$ 1.86
Dividends per share	**$ 0.330**	$ 0.305	**$ 0.990**	$ 0.915

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

GENERAL MILLS, INC. AND SUBSIDIARIES

(Unaudited) (In Millions)

	Quarter Ended		Nine-Month Period Ended	
	Feb. 24, 2013	**Feb. 26, 2012**	**Feb. 24, 2013**	**Feb. 26, 2012**
Net earnings, including earnings attributable to redeemable and noncontrolling interests	**$ 412.6**	$ 400.8	**$ 1,515.7**	$ 1,254.3
Other comprehensive income (loss), net of tax:				
Foreign currency translation	**14.0**	102.5	**138.5**	(201.3)
Other fair value changes:				
Securities	**0.2**	0.5	**0.6**	0.1
Hedge derivatives	**22.7**	(11.0)	**18.7**	(49.4)
Reclassification to earnings:				
Hedge derivatives	**3.2**	3.1	**13.6**	7.4
Amortization of losses and prior service costs	**24.6**	20.4	**74.1**	61.3
Other comprehensive income (loss), net of tax	**64.7**	115.5	**245.5**	(181.9)
Total comprehensive income	**477.3**	516.3	**1,761.2**	1,072.4
Comprehensive income (loss) attributable to redeemable and noncontrolling interests	**19.6**	32.1	**72.6**	(68.4)
Comprehensive income attributable to General Mills	**$ 457.7**	$ 484.2	**$ 1,688.6**	$ 1,140.8

See accompanying notes to consolidated financial statements.

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Consolidated Balance Sheets

GENERAL MILLS, INC. AND SUBSIDIARIES

(In Millions, Except Par Value)

	Feb. 24, 2013 (Unaudited)	May 27, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 751.2**	$ 471.2
Receivables	**1,591.5**	1,323.6
Inventories	**1,606.4**	1,478.8
Deferred income taxes	**87.6**	59.7
Prepaid expenses and other current assets	**329.1**	358.1
Total current assets	**4,365.8**	3,691.4
Land, buildings, and equipment	**3,806.8**	3,652.7
Goodwill	**8,665.7**	8,182.5
Other intangible assets	**5,060.4**	4,704.9
Other assets	**894.7**	865.3
Total assets	**$ 22,793.4**	$ 21,096.8
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	**$ 1,186.0**	$ 1,148.9
Current portion of long-term debt	**744.0**	741.2
Notes payable	**682.7**	526.5
Other current liabilities	**1,669.9**	1,426.6
Total current liabilities	**4,282.6**	3,843.2
Long-term debt	**6,631.9**	6,161.9
Deferred income taxes	**1,202.4**	1,171.4
Other liabilities	**2,212.9**	2,189.8
Total liabilities	**14,329.8**	13,366.3
Redeemable interest	**984.2**	847.8
Stockholders equity:		
Common stock, 754.6 shares issued, $0.10 par value	**75.5**	75.5
Additional paid-in capital	**1,168.6**	1,308.4
Retained earnings	**10,795.8**	9,958.5
Common stock in treasury, at cost, shares of 110.3 and 106.1	**(3,479.2)**	(3,177.0)
Accumulated other comprehensive loss	**(1,544.0)**	(1,743.7)

Total stockholders equity	**7,016.7**	6,421.7
Noncontrolling interests	**462.7**	461.0
Total equity	**7,479.4**	6,882.7
Total liabilities and equity	**$ 22,793.4**	$ 21,096.8

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Total Equity and Redeemable Interest

GENERAL MILLS, INC. AND SUBSIDIARIES

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

	$.10 Par Value Common Stock (One Billion Shares Authorized) Issued			Treasury						
	Shares	**Par Amount**	**Additional Paid-In Capital**	**Shares**	**Amount**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Non-controlling Interests**	**Total Equity**	**Redeemable Interest**
Balance as of May 29, 2011	754.6	$ 75.5	$ 1,319.8	(109.8)	$ (3,210.3)	$ 9,191.3	$ (1,010.8)	$ 246.7	$ 6,612.2	
Total comprehensive income (loss)						1,567.3	(732.9)	(44.3)	790.1	$ (86.1)
Cash dividends declared ($1.22 per share)						(800.1)			(800.1)	
Shares purchased				(8.3)	(313.0)				(313.0)	
Stock compensation plans (includes income tax benefits of $63.1)			3.2	12.0	346.3				349.5	
Unearned compensation related to restricted stock unit awards			(93.4)						(93.4)	
Earned compensation			108.3						108.3	
Addition of redeemable and noncontrolling interest from acquisitions								263.8	263.8	904.4
Increase (decrease) in fair value of redeemable interest			(29.5)						(29.5)	29.5
Distributions to noncontrolling interest holders								(5.2)	(5.2)	
Balance as of May 27, 2012	754.6	75.5	1,308.4	(106.1)	(3,177.0)	9,958.5	(1,743.7)	461.0	6,882.7	847.8
Total comprehensive income						1,488.9	199.7	23.8	1,712.4	48.8
Cash dividends declared ($0.99 per share)						(651.6)			(651.6)	
Shares purchased				(18.7)	(744.8)				(744.8)	
Stock compensation plans (includes income tax benefits of $89.8)			(38.6)	14.5	442.6				404.0	
Unearned compensation related to restricted stock unit awards			(79.6)						(79.6)	
Earned compensation			82.2						82.2	
Increase (decrease) in fair value of redeemable interest			(103.8)						(103.8)	103.8
Distributions to noncontrolling and redeemable interest holders								(22.1)	(22.1)	(16.2)
Balance as of Feb. 24, 2013	**754.6**	**$ 75.5**	**$ 1,168.6**	**(110.3)**	**$ (3,479.2)**	**$ 10,795.8**	**$ (1,544.0)**	**$ 462.7**	**$ 7,479.4**	**$ 984.2**

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

GENERAL MILLS, INC. AND SUBSIDIARIES

(Unaudited) (In Millions)

	Nine-Month Period Ended	
	Feb. 24, 2013	**Feb. 26, 2012**
Cash Flows - Operating Activities		
Net earnings, including earnings attributable to redeemable and noncontrolling interests	**$ 1,515.7**	$ 1,254.3
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	**432.3**	398.8
After-tax earnings from joint ventures	**(77.3)**	(72.7)
Distributions of earnings from joint ventures	**65.1**	43.2
Stock-based compensation	**82.2**	88.4
Deferred income taxes	**(25.0)**	49.9
Tax benefit on exercised options	**(89.8)**	(58.7)
Pension and other postretirement benefit plan contributions	**(17.6)**	(15.5)
Pension and other postretirement benefit plan costs	**97.8**	58.4
Restructuring, impairment, and other exit costs	**(47.8)**	(2.6)
Changes in current assets and liabilities, excluding the effects of acquisitions	**264.5**	66.7
Other, net	**(54.4)**	(148.6)
Net cash provided by operating activities	**2,145.7**	1,661.6
Cash Flows - Investing Activities		
Purchases of land, buildings, and equipment	**(412.2)**	(423.9)
Acquisitions, net of cash acquired	**(900.8)**	(900.1)
Investments in affiliates, net	**(3.2)**	(22.1)
Proceeds from disposal of land, buildings, and equipment	**22.3**	1.4
Exchangeable note	**16.2**	(131.6)
Other, net	**(3.5)**	6.6
Net cash used by investing activities	**(1,281.2)**	(1,469.7)
Cash Flows - Financing Activities		
Change in notes payable	**36.0**	384.9
Issuance of long-term debt	**1,000.0**	1,390.5
Payment of long-term debt	**(541.9)**	(1,439.3)
Proceeds from common stock issued on exercised options	**257.6**	208.5
Tax benefit on exercised options	**89.8**	58.7
Purchases of common stock for treasury	**(744.8)**	(312.5)
Dividends paid	**(651.6)**	(599.5)
Distributions to noncontrolling and redeemable interest holders	**(38.3)**	(4.4)
Other, net	**(6.1)**	(8.4)
Net cash used by financing activities	**(599.3)**	(321.5)
Effect of exchange rate changes on cash and cash equivalents	**14.8**	(4.7)

Increase (decrease) in cash and cash equivalents	**280.0**	(134.3)
Cash and cash equivalents - beginning of year	**471.2**	619.6
Cash and cash equivalents - end of period	**$ 751.2**	$ 485.3
Cash Flow from Changes in Current Assets and Liabilities, excluding the effects of acquisitions:		
Receivables	**$ (176.8)**	$ (115.0)
Inventories	**(19.7)**	111.8
Prepaid expenses and other current assets	**49.0**	146.4
Accounts payable	**63.7**	(76.8)
Other current liabilities	**348.3**	0.3
Changes in current assets and liabilities	**$ 264.5**	$ 66.7

See accompanying notes to consolidated financial statements.

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GENERAL MILLS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Background

The accompanying Consolidated Financial Statements of General Mills, Inc. (we, us, our, General Mills, or the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the rules and regulations for reporting on Form 10-Q. Accordingly, they do not include certain information and disclosures required for comprehensive financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature, including the elimination of all intercompany transactions and any noncontrolling and redeemable interests share of those transactions. Operating results for the quarterly and nine-month periods ended February 24, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending May 26, 2013.

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, 2012. 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. Certain reclassifications to our previously reported financial information have been made to conform to the current period presentation.

(2) Acquisitions

On August 1, 2012, we acquired Yoki Alimentos S.A. (Yoki), a privately held food company headquartered in Sao Bernardo do Campo, Brazil, for an aggregate purchase price of $939.8 million, including $88.8 million of non-cash consideration for net debt assumed. Yoki operates in several food categories, including snacks, convenient meals, basic foods, and seasonings. We consolidated Yoki into our Consolidated Balance Sheets and recorded goodwill of $366.6 million. Indefinite lived intangible assets acquired include brands of $253.0 million. Finite lived intangible assets acquired primarily include customer relationships of $17.5 million. As of the date of the acquisition, the pro forma effects of this acquisition were not material.

We have conducted a preliminary assessment of certain assets and liabilities related to the acquisition of Yoki. We are continuing our review of these items during the measurement period, and if new information is obtained about facts and circumstances that existed at the acquisition date, the acquisition accounting will be revised to reflect the resulting adjustments to current estimates of these items. During the third quarter of fiscal 2013, we recorded adjustments to certain purchase accounting assets and liabilities that resulted in an $8.3 million net increase in goodwill.

During the first quarter of fiscal 2012, we acquired a 51 percent controlling interest in Yoplait S.A.S. and a 50 percent interest in Yoplait Marques S.A.S. from PAI Partners and Sodiaal International (Sodiaal) for an aggregate purchase price of $1.2 billion, including $261.3 million of non-cash consideration for debt assumed. We consolidated both entities into our Consolidated Balance Sheets and recorded goodwill of $1.5 billion. Indefinite lived intangible assets acquired primarily include brands of $476.0 million. Finite lived intangible assets acquired primarily include franchise agreements of $440.2 million and customer relationships of $107.3 million. In addition, we purchased a zero coupon exchangeable note due in 2016 from Sodiaal with a notional amount of $131.6 million and a fair value of $110.9 million. As of February 24, 2013, $16.2 million of the exchangeable note has been repaid. The pro forma effects of this acquisition were not material.

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(3) Restructuring, Impairment, and Other Exit Costs

Restructuring, impairment, and other exit costs were as follows:

	Quarter Ended		Nine-Month Period Ended	
In Millions	**Feb. 24, 2013**	**Feb. 26, 2012**	**Feb. 24, 2013**	**Feb. 26, 2012**
Charges associated with restructuring actions previously announced	**$ 6.1**	$ 0.1	**$ 18.0**	$ 0.9
Total	**$ 6.1**	$ 0.1	**$ 18.0**	$ 0.9

During the nine-month period ended February 24, 2013, we recorded a $16.7 million restructuring charge related to a productivity and cost savings plan approved in the fourth quarter of fiscal 2012. The plan was designed to improve organizational effectiveness and focus on key growth strategies, and included organizational changes to strengthen business alignment and actions to accelerate administrative efficiencies across all of our operating segments and support functions. During the nine-month period ended February 24, 2013, we recorded restructuring charges of $13.9 million related to our International segment, $2.0 million related to our U.S. Retail segment, and $0.8 million related to our Bakeries and Foodservice segment. In the nine-month period ended February 24, 2013, we paid $65.8 million in cash related to these restructuring actions. These restructuring actions are expected to be completed by the end of fiscal 2014.

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

In Millions	**Severance**	**Contract Termination**	**Other Exit Costs**	**Total**
Reserve balance as of May 27, 2012	$ 83.1	$ 2.7	$ 0.1	$ 85.9
2013 charges, including foreign currency translation	8.7			8.7
Utilized in 2013	(59.6)	(2.7)		(62.3)
Reserve balance as of Feb. 24, 2013	**$ 32.2**	**$**	**$ 0.1**	**$ 32.3**

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

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(4) Goodwill and Other Intangible Assets

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

In Millions	Feb. 24, 2013	May 27, 2012
Goodwill	**$ 8,665.7**	$ 8,182.5
Other intangible assets:		
Intangible assets not subject to amortization:		
Brands and other indefinite-lived intangibles	**4,526.2**	4,217.1
Intangible assets subject to amortization:		
Franchise agreements, customer relationships, and other finite-lived intangibles	**616.0**	544.7
Less accumulated amortization	**(81.8)**	(56.9)
Intangible assets subject to amortization	**534.2**	487.8
Other intangible assets	**5,060.4**	4,704.9
Total	**$ 13,726.1**	$ 12,887.4

Based on the carrying value of finite-lived intangible assets as of February 24, 2013, annual amortization expense for each of the next five fiscal years is estimated to be approximately $31 million.

The changes in the carrying amount of goodwill during fiscal 2013 were as follows:

In Millions	U.S. Retail	International	Bakeries and Foodservice	Joint Ventures	Total
Balance as of May 27, 2012	$ 5,813.2	$ 989.9	$ 921.1	$ 458.3	$ 8,182.5
Acquisitions	28.2	374.1			402.3
Purchase accounting adjustments (a)		8.3			8.3
Other activity, primarily foreign currency translation		47.9		24.7	72.6
Balance as of Feb. 24, 2013	**$ 5,841.4**	**$ 1,420.2**	**$ 921.1**	**$ 483.0**	**$ 8,665.7**

(a) See Note 2.

The changes in the carrying amount of other intangible assets during fiscal 2013 were as follows:

In Millions	U.S. Retail	International	Joint Ventures	Total
Balance as of May 27, 2012	$ 3,297.0	$ 1,344.1	$ 63.8	$ 4,704.9
Acquisitions	20.0	290.7		310.7
Other activity, primarily foreign currency translation	(3.4)	48.8	(0.6)	44.8
Balance as of Feb. 24, 2013	**$ 3,313.6**	**$ 1,683.6**	**$ 63.2**	**$ 5,060.4**

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(5) Inventories

The components of inventories were as follows:

In Millions	Feb. 24, 2013	May 27, 2012
Raw materials and packaging	**$ 400.5**	$ 334.4
Finished goods	**1,239.6**	1,211.8
Grain	**185.4**	155.3
Excess of FIFO over LIFO cost	**(219.1)**	(222.7)
Total	**$ 1,606.4**	$ 1,478.8

(6) Financial Instruments, Risk Management Activities, and Fair Values

Financial Instruments. The carrying values of cash and cash equivalents, receivables, accounts payable, other current liabilities, and notes payable approximate fair value. Marketable securities are carried at fair value. As of February 24, 2013, and May 27, 2012, a comparison of cost and market values of our marketable debt and equity securities is as follows:

	Cost		Market Value		Gross Gains		Gross Losses	
In Millions	Feb. 24, 2013	May 27, 2012	Feb. 24, 2013	May 27, 2012	Feb. 24, 2013	May 27, 2012	Feb. 24, 2013	May 27, 2012
Available-for-sale:								
Debt securities	**$ 67.8**	$ 52.2	**$ 68.0**	$ 52.3	**$ 0.2**	$ 0.1	**$**	$
Equity securities	**1.8**	1.8	**6.1**	5.3	**4.3**	3.5		
Total	**$ 69.6**	$ 54.0	**$ 74.1**	$ 57.6	**$ 4.5**	$ 3.6	**$**	$

For the third quarter of fiscal 2013, there were no gains or losses from sales of available-for-sale marketable securities. Gains and losses are determined by specific identification. Classification of marketable securities as current or noncurrent is dependent upon our intended holding period, the security s maturity date, or both. The aggregate unrealized gains and losses on available-for-sale securities, net of tax effects, are classified in accumulated other comprehensive loss (AOCI) within stockholders equity. Scheduled maturities of our marketable securities are as follows:

	Available-for-Sale	
In Millions	Cost	Market Value
Under 1 year (current)	$ 63.8	$ 63.9
From 1 to 3 years	1.9	1.9
From 4 to 7 years	2.1	2.2
Equity securities	1.8	6.1
Total	$ 69.6	$ 74.1

Marketable securities with a market value of $2.3 million as of February 24, 2013, were pledged as collateral for certain derivative contracts.

The fair values and carrying amounts of long-term debt, including the current portion, were $8,072.3 million and $7,375.9 million, respectively, as of February 24, 2013. The fair value of long-term debt was estimated using market quotations and discounted cash flows based on our current incremental borrowing rates for similar types of instruments. Long-term debt is a Level 2 liability in the fair value hierarchy.

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

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

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

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

Unallocated corporate items for the quarterly and nine-month periods ended February 24, 2013, and February 26, 2012, included:

	Quarter Ended		**Nine-Month Period Ended**	
	Feb. 24,	**Feb. 26,**	**Feb. 24,**	**Feb. 26,**
In Millions	**2013**	**2012**	**2013**	**2012**
Net gain (loss) on mark-to-market valuation of commodity positions	**$ (21.9)**	$ 20.5	**$ 14.4**	$ (88.0)
Net (gain) loss on commodity positions reclassified from unallocated corporate items to segment operating profit	**2.1**	23.3	**(1.3)**	22.5
Net mark-to-market revaluation of certain grain inventories	**(5.3)**	2.6	**(4.5)**	(20.2)
Net mark-to-market valuation of certain commodity positions recognized in unallocated corporate items	**$ (25.1)**	$ 46.4	**$ 8.6**	$ (85.7)

As of February 24, 2013, the net notional value of commodity derivatives was $188.5 million, of which $96.8 million related to energy inputs and $91.7 million related to agricultural inputs. These contracts relate to inputs that generally will be utilized within the next 18 months.

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

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Floating Interest Rate Exposures Floating-to-fixed interest rate swaps are accounted for as cash flow hedges, as are all hedges of forecasted issuances of debt. Effectiveness is assessed based on either the perfectly effective hypothetical derivative method or changes in the present value of interest payments on the underlying debt. Effective gains and losses deferred to AOCI are reclassified into earnings over the life of the associated debt. Ineffective gains and losses are recorded as net interest. The amount of hedge ineffectiveness was less than $1 million for the quarterly and nine-month periods ended February 24, 2013.

Fixed Interest Rate Exposures Fixed-to-floating interest rate swaps are accounted for as fair value hedges with effectiveness assessed based on changes in the fair value of the underlying debt and derivatives, using incremental borrowing rates currently available on loans with similar terms and maturities. Ineffective gains and losses on these derivatives and the underlying hedged items are recorded as net interest. The amount of hedge ineffectiveness was less than $1 million for the quarter ended February 24, 2013 and a gain of $1.2 million for the nine-month period ended February 24, 2013.

During the third quarter of fiscal 2013, we entered into swaps to convert $250.0 million of 0.875 percent fixed-rate notes due January 29, 2016, to floating rates.

During the second quarter of fiscal 2013, in advance of a planned debt refinancing, we entered into $200.0 million of treasury locks with an average fixed rate of 2.82 percent. All of these treasury locks were cash settled for $11.8 million during the third quarter of fiscal 2013, coincident with the issuance of our $500.0 million 30-year fixed-rate notes. As of February 24, 2013, an $11.8 million pre-tax gain remained in AOCI, which will be reclassified to earnings over the term of the underlying debt.

During the fourth quarter of fiscal 2011, first quarter of fiscal 2012 and second quarter of fiscal 2012, we entered into $500.0 million, $300.0 million, and $200.0 million of forward starting swaps with average fixed rates of 3.9 percent, 2.7 percent, and 2.4 percent, respectively, in advance of a planned debt financing. All of these forward starting swaps were cash settled for $100.4 million coincident with the issuance of our $1.0 billion 10-year fixed rate notes in November 2011. As of February 24, 2013, an $87.2 million pre-tax loss remained in AOCI, which will be reclassified to earnings over the term of the underlying debt.

During the fourth quarter of fiscal 2011, we entered into swaps to convert $300.0 million of 1.55 percent fixed-rate notes due May 16, 2014, to floating rates.

As of February 24, 2013, a $15.3 million pre-tax loss on cash settled interest rate derivatives for our $500.0 million 30-year fixed rate notes issued June 1, 2010 remained in AOCI, which will be reclassified to earnings over the term of the underlying debt.

As of February 24, 2013, a $8.8 million pre-tax loss on cash settled interest rate swaps for our $1.0 billion 10-year fixed rate notes issued January 24, 2007 remained in AOCI, which will be reclassified to earnings over the term of the underlying debt.

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

In Millions	**Feb. 24, 2013**	**May 27, 2012**
Pay-floating swaps - notional amount	**$ 550.0**	$ 834.6
Average receive rate	**1.1%**	1.7%
Average pay rate	**0.4%**	0.3%

The swap contracts mature at various dates from fiscal 2014 to 2016 as follows:

In Millions	Pay Floating	Pay Fixed
2014	$ 300.0	$
2015		
2016	250.0	
Total	$ 550.0	$

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

As of February 24, 2013, the net notional value of foreign exchange derivatives was $939.6 million. The amount of hedge ineffectiveness was less than $1 million for the quarterly and nine-month periods ended February 24, 2013.

We also have many net investments in foreign subsidiaries that are denominated in euros. We previously hedged a portion of these net investments by issuing euro-denominated commercial paper and foreign exchange forward contracts. As of February 24, 2013, we had deferred net foreign currency transaction losses of $95.7 million in AOCI associated with hedging activity.

Equity Instruments. Equity price movements affect our compensation expense as certain investments made by our employees in our deferred compensation plan are revalued. We use equity swaps to manage this risk. As of February 24, 2013, the net notional value of our equity swaps was $53.8 million. These swap contracts mature in fiscal 2014.

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Fair Value Measurements and Financial Statement Presentation

The fair values of our assets, liabilities, and derivative positions recorded at fair value and their respective levels in the fair value hierarchy as of February 24, 2013 and May 27, 2012, were as follows:

	Feb. 24, 2013 Fair Values of Assets				Feb. 24, 2013 Fair Values of Liabilities			
In Millions	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivatives designated as hedging instruments:								