The New General Mills

Midyear Report 2002

REPORT TO SHARE

The first half of General Mills' 2002 fiscal year ended on a very high note, as we completed our acquisition of the worldwide Pillsbury businesses and brought 27,000 people together to form our new organization. We believe more strongly than ever that this acquisition enhances General Mills' future growth prospects, by giving us leading brand positions in attractive new retail food categories, by expanding our reach in foodservice channels, and by increasing our presence and growth capabilities in international markets. Pages 2 through 4 of this report highlight some of these new business opportunities and introduce the new members of General Mills' senior leadership team.

"We believe more strongly than ever that the Pillsbury acquisition enhances our future growth prospects."

We've also completed two transactions related to our Pillsbury acquisition. In order to gain regulatory clearance for that acquisition, we divested the

CONTENTS

1 From the Chairman

2 The new General Mills
Pillsbury enhances our portfolio in many ways.

5 A tale of two companies
From opposite sides of the Mississippi, Pillsbury and General Mills have grown up together.

6 Annual Meeting summary

7 Financials

12 Briefly noted
Cheerios turns 60, new product news and more.

14 2002 Olympic Winter Games
General Mills is an Official Supplier to the 2002 Games.

This report to shareholders contains forward-looking statements based on management's current views and assumptions. Actual events may differ. Please refer to our 2001 Form 10-K for further discussion of these matters.

SHAREHOLDER INFORMATION

Transfer Agent, Registrar, Dividend Payments, Direct Deposit and Dividend Reinvestment Plan
Wells Fargo Bank Minnesota, N.A.
161 North Concord Exchange
P.O. Box 64854
St. Paul, MN 55164-0854
Phone: (800) 670-4763
or (651) 450-4084
E-mail:
stocktransfer@WellsFargo.com
Account access via Web site:
www.shareowneronline.com

Shareholder Reports/ Investor Inquiries
Shareholders seeking information about General Mills are invited to contact the Investor Relations Department at (800) 245-5703. Within the 612, 651, 763 or 952 area codes, call (763) 764-3202.

Company Addresses
Number One General Mills Boulevard
Minneapolis, MN 55426
Phone: (763) 764-7600

Mailing Address:
P.O. Box 1113
Minneapolis, MN 55440

Visit us on the Web
www.generalmills.com

For more information about General Mills, including financial results, SEC filings and product news, visit our newly updated Web site at www.generalmills.com.

© 2002 General Mills, Inc.

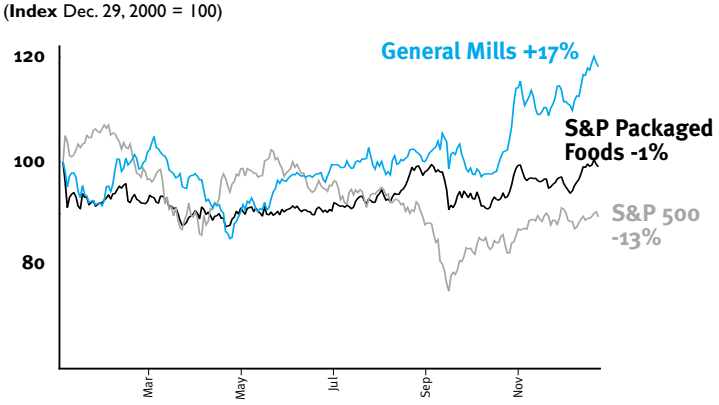
Printed on recycled paper containing at least 10 percent post-consumer material.

Pillsbury desserts and specialty products businesses along with certain General Mills brands. Our sale of these businesses to International Multifoods Corporation was completed on Nov. 13, 2001. Subsequent to the end of the second quarter, we completed a transaction with Nestlé USA, in which it exercised its right to purchase our 50-percent equity stake in a U.S. ice cream joint venture. Pillsbury and Nestlé formed this joint venture in 1999, and Nestlé's right to buy Pillsbury's 50-percent interest was triggered by our purchase of Pillsbury. This transaction also included a license for the *Häagen-Dazs* brand in Canada. We will continue to own the *Häagen-Dazs* business outside the United States and Canada. Combined cash proceeds to General Mills from these transactions total $957 million. We intend to use the after-tax proceeds, which we estimate will exceed $600 million, to reduce the debt we incurred to purchase Pillsbury.

Our reported financial results for the first half of fiscal 2002 include three weeks of Pillsbury performance. Total sales rose 15 percent to $4.11 billion. If you exclude sales contributed by Pillsbury and by businesses we've divested, our first-half revenues grew 4 percent. First-half earnings after tax before unusual items grew 5 percent to $381.1 million. Earnings per share before unusual items totaled $1.24, a penny below prior-year results. This reflects the impact of increased shares outstanding, as we issued a net 79 million shares of General Mills common stock to Diageo in conjunction with the Pillsbury acquisition.

General Mills' shares performed well in calendar 2001 relative to our food company peers and the broader market. For the year, General Mills' stock price rose 17 percent, while the S&P Packaged Foods Index declined 1 percent, and the S&P 500 Index fell 13 percent. Total return to General Mills shareholders in calendar 2001, including both stock price appreciation and dividends, was 20 percent. On Dec. 17, 2001, your board of directors approved a quarterly dividend of $.275 per share, payable Feb. 1, 2002, to shareholders of record Jan. 10, 2002. While our number of shares outstanding has increased significantly, we intend to maintain our prevailing annual dividend rate of $1.10 per share.

Calendar 2001 Stock Price Trend



In 2001, General Mills stock outperformed both the S&P 500 Index and the S&P Packaged Foods Index.

As we move into the second half of the fiscal year, our focus is on continuing to make good progress in our integration of Pillsbury and achieve our targeted financial objectives for the year. We also have some new products and merchandising activities planned – you'll find some of these events described on pages 12 to 14 of this report.

In closing, I want to acknowledge the 27,000 people working across General Mills to drive our integration forward and deliver strong business results. The talent and commitment of General Mills people give me great confidence in our future prospects.

Sincerely,

Stephen W. Sanger
Chairman and Chief Executive Officer

January 25, 2002

The New General

DOUGH EXPERTISE

MORE CONVENIENCE

What's new about General Mills? Lots of things! With the acquisition of Pillsbury, our company has gained new product lines, such as refrigerated and frozen dough, and the technologies that go with them. We have increased our portfolio of convenient meals for consumers strapped for time. And our presence around the globe has expanded significantly with the addition of Pillsbury's international businesses. All these additions give us more opportunities to grow.

DOUGH KNOW-HOW

Since acquiring a small, refrigerated dough business in 1951, Pillsbury has changed the shape of baking. Consumers embraced the cans of *Poppin' Fresh* dough, which provided a convenient way to bake fresh rolls and biscuits, eliminating the time and mess involved in baking from scratch. Five decades later, Pillsbury has a 74 percent dollar share of a category that generates $1.4 billion in annual retail sales.

In 2001, Pillsbury took baking convenience a step further, introducing freezer-to-oven retail dough products. Using innovative forming and packaging technology, these products give consumers quick, easy-to-prepare biscuits in a portion-controlled, resealable bag. This new line joins *Pillsbury* frozen breakfast pastries and waffles in the freezer aisle.

The *Totino's* brand, a part of the Pillsbury portfolio since 1975, uses dough to create savory, frozen snacks and pizzas. These products appeal to moms and teens for an after-school snack or quick dinner.

Over the past 10 years, the combination of Pillsbury's refrigerated and frozen dough products has generated 7 percent compound annual sales growth. We expect to see continued good growth as we capitalize on Pillsbury's dough expertise.

Dough innovation also has played a major role in the success of Pillsbury's bakeries and foodservice business. Foodservice operators want products that can reduce preparation time

Mills

GLOBAL GROWTH

and waste. Pillsbury has worked hard to meet those needs by offering dough products in a variety of forms, including frozen ready-to-bake, partially baked, and heat-and-serve.

The next time you grab a sandwich at Subway or a meal with a biscuit at KFC, you will be enjoying a *Pillsbury* dough product. Pillsbury has developed expertise in customizing products for foodservice operators. Pillsbury also provides mixes for bakeries in grocery stores like Kroger and Albertson's. In addition, customized mixes are sold to wholesale bakeries that make dough-based products for brands like Entenmann's and Hostess.

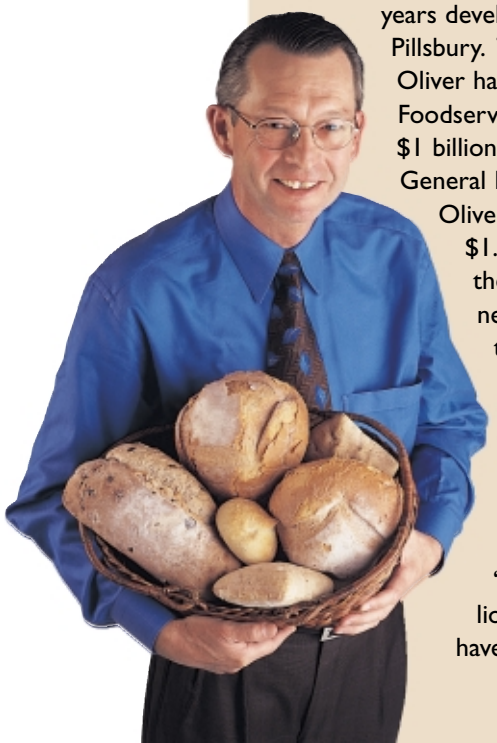
A TECHNOLOGICAL EDGE

Pillsbury has been very successful in using technology to develop and manufacture new products. Pillsbury researchers and product developers have built strong capabilities in forming, filling and packaging dough. Pillsbury has made technological advances in a number of other areas, too. It has created proprietary vegetable seeds

PETER ROBINSON
SENIOR VICE PRESIDENT
PRESIDENT, PILLSBURY USA

U.K. native Peter Robinson explains that he wanted to tour the United States while in college. "To raise money for a Greyhound bus ticket, I took my first job in the foods industry, as a cutter in a meat packing plant." So began a 31-year career in consumer foods. While running Pillsbury's North American business for three years, Robinson has been working hard to develop dough-based products to meet the needs of consumers everywhere. He is especially pleased with Pillsbury's latest innovation – freezer-to-oven biscuits, packaged in resealable bags. These biscuits have been so popular, Robinson and his team have expanded the concept to cookies, sweet rolls and dinner rolls. By focusing on product quality and meeting consumer needs with innovative, convenient new offerings, Robinson expects good growth ahead for the *Pillsbury* mega-brand.

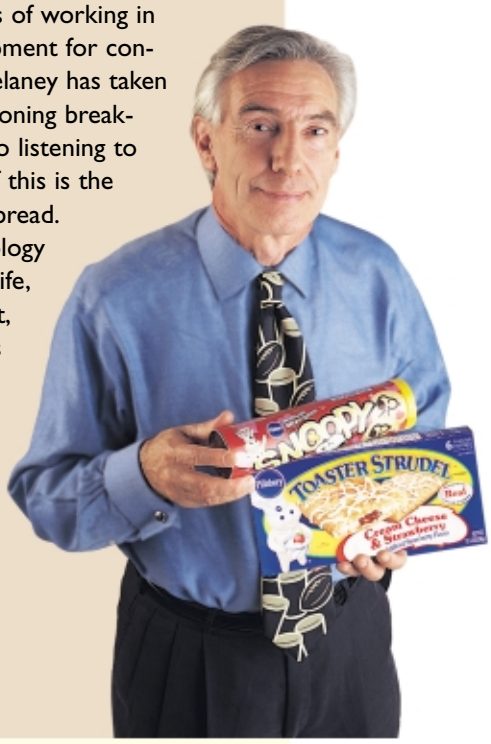
PAUL OLIVER
SENIOR VICE PRESIDENT
PRESIDENT, BAKERIES AND FOODSERVICE



When Paul Oliver moved to Minneapolis nine years ago to lead the Bakeries and Foodservice division for Pillsbury, he wasn't sure about leaving his native Canada. After all, he had spent 11 years developing the Canadian business for Pillsbury. Turns out it was a good move. Oliver has grown the Bakeries and Foodservice business to more than $1 billion in sales. When combined with General Mills' foodservice business, Oliver's expanded division grows to $1.7 billion in sales. Oliver developed the Bakeries and Foodservice business by expanding Pillsbury's expertise with dough, and partnering with restaurants and bakeries to create products customized for that specific operator's needs. "I am excited about our continuing opportunities for customized products," Oliver says, "and about the expanded portfolio of General Mills products we have to offer foodservice operators."

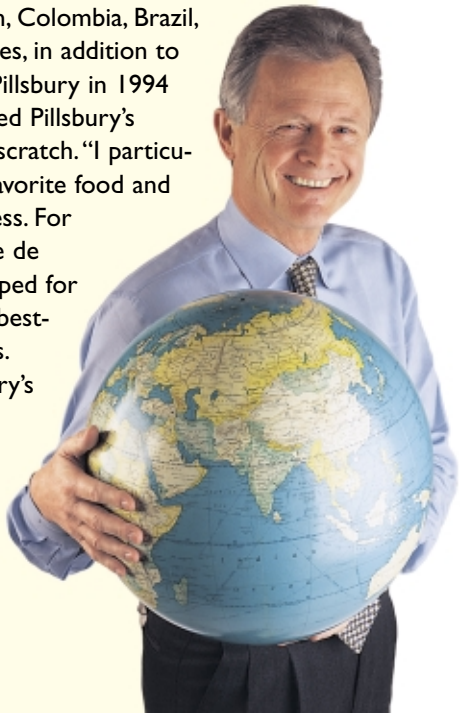
RORY DELANEY
SENIOR VICE PRESIDENT
INNOVATION AND TECHNOLOGY

Irish-born Rory Delaney says the best advice he ever received paraphrases Winston Churchill and says, "Courage is what it takes to stand up and speak, and also what it takes to sit down and listen." During his 31 years of working in the field of technology development for consumer products companies, Delaney has taken that advice to heart by championing breakthrough technologies while also listening to consumers. A good example of this is the development of *Pillsbury* fresh bread. By applying proprietary technology that extends a product's shelf life, this bread not only tastes great, but stays fresh twice as long as traditional bread. In his new position at General Mills, Delaney, in partnership with Danny Strickland, is leading the combined Innovation, Technology and Quality organization to further develop technological horsepower for the new General Mills.



LUCIO RIZZI
SENIOR VICE PRESIDENT
PRESIDENT, GENERAL MILLS INTERNATIONAL

Who do you know who has lived in seven countries and can speak five languages? Meet Lucio Rizzi, president of General Mills' International division. Throughout his 32 years of experience in the consumer products field, Rizzi has lived in France, Iran, Colombia, Brazil, Belgium and the United States, in addition to his native Italy. Rizzi joined Pillsbury in 1994 and, for the most part, started Pillsbury's international business from scratch. "I particularly enjoy finding a locally favorite food and turning it into a global success. For example, *Häagen-Dazs* Dulce de Leche ice cream was developed for Latin America and now is a best-selling flavor in Asia," he says. Under his leadership, Pillsbury's international presence has grown significantly in the past seven years and, when combined with General Mills' wholly owned businesses, totals $1 billion in sales with a presence in 70 countries.



that increase the size and quality of a harvest. And it has developed tools to link product design expertise directly with the consumer, resulting in the creation of whole new categories, such as frozen meal starters and value-added sauces and vegetables. By combining Pillsbury's technological expertise with ours, we have greatly expanded our ability to develop new products.

MORE CONVENIENT MEALS

When you need a meal fast, General Mills now has more quick and easy options to answer the question, "What's for dinner?" *Old El Paso* dinner kits give you almost everything you need to prepare a quick meal with a Mexican flavor. *Progresso* soup is a ready-to-serve, hot and hearty meal alternative for lunch or supper. And *Green Giant* has gone beyond plain vegetables with its frozen *Create a Meal!* dinners. These dinners-in-a-bag pioneered the frozen meal starter category, and became even more convenient when meat was added to the bag. With Pillsbury's products added to our portfolio, nearly 80 percent of our retail sales will come from products that are ready to eat in 15 minutes or less.

INTERNATIONAL EXPANSION

When in Rome … have an *Old El Paso* dinner. When in France, enjoy a product considered a special treat: *Green Giant* canned corn. And when in Japan, chill out with *Häagen-Dazs* Green Tea ice cream. Pillsbury brings more global brands in promising international markets to the new General Mills, resulting in an International division with sales of over $1 billion. In addition to the brands already mentioned, Pillsbury is known internationally for dough-based products such as empanadas in Argentina and filled dumplings in China. These products can be found under either the Pillsbury name or local brand names. Pillsbury has established manufacturing facilities and channels for product distribution that will enhance the existing General Mills international business.

In Canada, the addition of Pillsbury products nearly doubles our sales there. And products like *Pillsbury Pizza Pops* and refrigerated dough give us a new presence in both the refrigerated and frozen sections of the store.

So, when you put it all together, Pillsbury's dough know-how, convenient meals and international businesses add up to strong new opportunities for growth at the new General Mills.

A TALE OF TWO COMPANIES

In 1869, three years after Cadwallader Washburn opened his mill on the west bank of the Mississippi River in Minneapolis, Charles Pillsbury opened a competing mill across the river. That signaled the beginning of a legendary business rivalry. As industry pioneers and fierce competitors, Washburn, along with his partner John Crosby, and Pillsbury revolutionized the flour milling business. They branded *Gold Medal* and *Pillsbury's Best* flour and created two of the world's leading food companies. In 1928, the Washburn Crosby Company merged with several mills to form General Mills.

Since then, General Mills and Pillsbury followed remarkably similar paths to success, each with a history that's rich in innovation and breakthrough ingenuity. Both companies built some of the country's most trusted brands, such as *Cheerios*, *Wheaties*, *Green Giant* and *Old El Paso*, and introduced the world to two well-known icons: *Betty Crocker* and the *Pillsbury Doughboy*. *Betty Crocker* wrote her "Big Red" cookbook in 1950, and it's now in its ninth edition. The *Pillsbury Bake-Off* Contest started in 1949 as a one-time cooking competition. It's now a biannual event celebrating its 52nd year.

Both companies developed trend-setting insights into consumers' tastes, preferences and needs everywhere. They continuously delivered many of the "firsts" that shaped how we shop for, prepare and eat food: ready-to-eat cereal, convenient baking products such as pie crust and cake mix, refrigerated dough, instant meals and even specially packaged food for the Aurora Seven space mission in 1962. Pillsbury's development of the microbe-free space food led to pioneering work in food

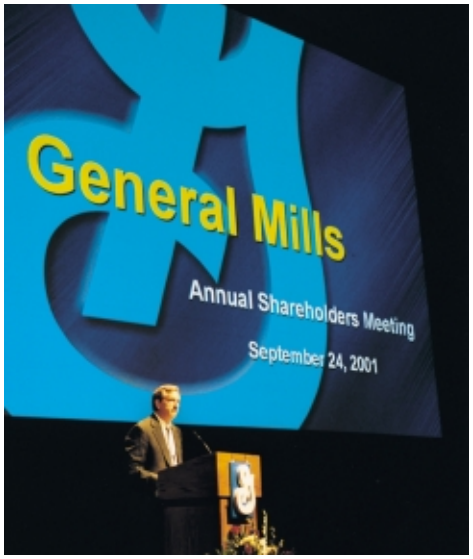
safety that set the federal standard across industries. Innovative changes in *Cheerios* helped the oat-based cereal meet rigid, clinical testing to earn a heart-healthy claim from the Food and Drug Administration in 1997.

In the 1970s and 1980s, both companies diversified by entering into retail businesses and operating restaurant chains, including The Olive Garden® and Burger King®. Both companies also ventured internationally and began developing products that showcased their know-how around the world while catering to local tastes. By the mid-1990s, both companies were singularly focused on growing their food businesses worldwide.

The *Gold Medal* and *Pillsbury's Best* signs still light the Minneapolis skyline from opposite banks of the Mississippi. They are landmarks of our shared heritage in the Minneapolis milling community, as well as symbols of a promising future working together to build an even better General Mills.

2001

ANNUAL MEETING SUMMARY



Chairman and CEO Steve Sanger reports strong fiscal 2001 results to shareholders.

On Sept. 24, 2001, General Mills held its 73rd annual meeting in Minneapolis, Minn. Chairman and CEO Steve Sanger reported on another year of record performance for the company. He also reinforced the value of the Pillsbury acquisition, citing Pillsbury's leading market positions in fast-growing categories, the strength of its international and foodservice businesses, and the opportunity for significant cost synergies as the two companies are combined.

QUESTION AND ANSWER SUMMARY

The following summarizes management's responses to key shareholder questions.

Q. Is *Häagen-Dazs* going to be a part of General Mills' product line?
A. As part of the acquisition of Pillsbury, General Mills will own the *Häagen-Dazs* ice cream business outside the United States. Ice Cream Partners (ICP), a joint venture between Pillsbury and Nestlé, owned the U.S. *Häagen-Dazs* business. With the change in ownership of Pillsbury, Nestlé has the option to purchase Pillsbury's share of ICP and, therefore, be the sole licensee of the *Häagen-Dazs* brand in the United States. (Subsequent to the annual meeting, Nestlé did purchase Pillsbury's share of ICP and the Canadian *Häagen-Dazs* license from us.)

Q. Does General Mills have products for people who have an intolerance to gluten?
A. Gluten is a protein found predominantly in wheat. General Mills does have cereal products, such as *Corn Chex* and *Rice Chex*, which do not contain gluten.

Q. What are the three-year financial projections for General Mills after the acquisition of Pillsbury? With the delay in approval from the FTC, does General Mills expect those projections to change from what had been issued previously?
A. While the finalization of the Pillsbury acquisition was delayed from the original completion date, the company believes that when the Pillsbury acquisition is completed, the return for shareholders will be as good as anticipated when the acquisition was first announced. However, any changes in terms, or in products to be divested would cause some change in financial projections. (New financial projections were announced in a press release on Nov. 9, 2001.)

Voting Results

A total of 239,889,095 shares, or 84.7 percent of the outstanding shares eligible to vote, were represented at the 2001 annual meeting.

Item	Results
Elected 11 directors	At least 95.6% for each
Approved KPMG LLP as the company's independent auditor	99% approved
Adopted the General Mills 2001 Compensation Plan for Non-employee Directors	65% approved
Acted on a stockholder proposal concerning labeling genetically engineered food products	90.6% rejected

CONSOLIDATED STATEMENTS OF EARNINGS

Unaudited In Millions, Except Per Share Data	13 Weeks Ended Nov. 25, 2001	 Nov. 26, 2000	26 Weeks Ended Nov. 25, 2001	 Nov. 26, 2000
Sales	$ 2,342.6	$ 1,895.2	$ 4,113.8	$ 3,570.1
Costs and Expenses:				
Cost of sales	1,039.8	753.1	1,760.2	1,406.4
Selling, general and administrative	917.1	784.7	1,656.0	1,509.6
Interest, net	68.7	52.4	117.6	107.2
Unusual items	109.0	1.0	94.2	1.6
Total Costs and Expenses	2,134.6	1,591.2	3,628.0	3,024.8
Earnings before Taxes and Earnings from Joint Ventures	208.0	304.0	485.8	545.3
Income Taxes	80.5	107.2	175.9	192.6
Earnings from Joint Ventures	3.3	5.9	12.0	8.9
Earnings before cumulative effect of change in accounting principle	130.8	202.7	321.9	361.6
Cumulative effect of change in accounting principle	–	–	(3.1)	–
Net Earnings	$ 130.8	$ 202.7	$ 318.8	$ 361.6
Earnings per Share - Basic				
Earnings before cumulative effect of change in accounting principle	.43	.72	1.09	1.28
Cumulative effect of change in accounting principle	–	–	(.01)	–
Earnings per Share - Basic	$ .43	$ .72	$ 1.08	$ 1.28
Average Number of Common Shares	307.4	282.9	296.0	283.3
Earnings per Share - Diluted				
Earnings before cumulative effect of change in accounting principle	.41	.70	1.05	1.25
Cumulative effect of change in accounting principle	–	–	(.01)	–
Earnings per Share - Diluted	$ .41	$ .70	$ 1.04	$ 1.25
Average Number of Common Shares - Assuming Dilution	318.3	290.2	306.6	290.3
Dividends per Share	$ .275	$ .275	$ .550	$ .550

See accompanying notes to consolidated condensed financial statements.

CONSOLIDATED CONDENSED BALANCE SHEETS

In Millions	(Unaudited) Nov. 25, 2001	(Unaudited) Nov. 26, 2000	May 27, 2001
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 853.5	$ 66.9	$ 64.1
Receivables	1,218.8	588.9	664.0
Inventories:			
Valued primarily at FIFO	423.0	251.1	282.3
Valued at LIFO (FIFO value exceeds LIFO by $29.8, $30.4 and $29.8, respectively)	656.3	311.1	236.6
Prepaid expenses and other current assets	222.3	83.8	99.3
Deferred income taxes	61.9	65.9	61.9
Assets held for sale	641.0	–	–
Total Current Assets	4,076.8	1,367.7	1,408.2
Land, Buildings and Equipment, at cost	4,581.3	3,060.0	3,179.3
Less accumulated depreciation	(1,764.1)	(1,608.8)	(1,678.1)
Net Land, Buildings and Equipment	2,817.2	1,451.2	1,501.2
Goodwill	8,377.2	815.0	804.0
Other Intangible Assets	83.4	55.3	66.0
Other Assets	1,769.7	1,210.2	1,311.8
Total Assets	$17,124.3	$ 4,899.4	$ 5,091.2
LIABILITIES AND EQUITY			
Current Liabilities:			
Accounts payable	$ 1,183.7	$ 568.9	$ 619.1
Current portion of long-term debt	583.6	347.8	349.4
Notes payable	7,220.5	1,117.1	857.9
Accrued taxes	83.0	160.6	111.1
Other current liabilities	738.3	256.2	271.3
Total Current Liabilities	9,809.1	2,450.6	2,208.8
Long-term Debt	2,206.4	2,026.4	2,221.0
Deferred Income Taxes	418.1	307.2	349.5
Deferred Income Taxes - Tax Leases	75.2	82.2	73.7
Other Liabilities	1,062.8	193.9	186.0
Total Liabilities	13,571.6	5,060.3	5,039.0
Stockholders' Equity:			
Cumulative preference stock, none issued	–	–	–
Common stock, 502.3 shares issued	5,698.1	695.2	744.7
Retained earnings	2,630.1	2,320.2	2,467.6
Less common stock in treasury, at cost, shares of 137.3, 124.5 and 123.1, respectively	(4,351.0)	(3,026.2)	(3,013.9)
Unearned compensation	(54.3)	(60.7)	(53.4)
Accumulated other comprehensive income	(370.2)	(89.4)	(92.8)
Total Stockholders' Equity	3,552.7	(160.9)	52.2
Total Liabilities and Equity	$17,124.3	$ 4,899.4	$ 5,091.2

See accompanying notes to consolidated condensed financial statements.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

Unaudited, In Millions	26 Weeks Ended Nov. 25, 2001	Nov. 26, 2000
Cash Flows - Operating Activities:		
Net earnings	$ 318.8	$ 361.6
Adjustments to reconcile earnings to cash flow:		
Depreciation and amortization	114.0	104.0
Deferred income taxes	16.8	6.4
Change in current assets and liabilities excluding effects of businesses acquired	(116.8)	(138.7)
Tax benefit on exercised options	25.2	13.0
Cumulative effect of change in accounting principle	3.1	–
Unusual items expense	94.2	1.6
Other, net	(44.9)	(38.6)
Cash provided by continuing operations	410.4	309.3
Cash used by discontinued operations	(1.4)	(.9)
Net Cash Provided by Operating Activities	409.0	308.4
Cash Flows - Investment Activities:		
Purchases of land, buildings and equipment	(142.8)	(137.8)
Investments in businesses, intangibles and affiliates, net of investment returns and dividends	(3,592.9)	(57.6)
Purchases of marketable investments	(96.1)	(14.2)
Proceeds from sale of marketable investments	45.7	.8
Proceeds from disposal of land, buildings and equipment	8.4	.4
Proceeds from disposition of businesses	299.4	–
Other, net	(4.2)	(11.2)
Net Cash Used by Investment Activities	(3,482.5)	(219.6)
Cash Flows - Financing Activities:		
Change in notes payable	6,362.1	37.5
Issuance of long-term debt	6.6	289.8
Payment of long-term debt	(23.2)	(82.6)
Common stock issued	75.7	41.4
Purchases of common stock for treasury	(2,408.5)	(173.4)
Dividends paid	(156.6)	(155.9)
Other, net	6.8	(4.3)
Net Cash Provided (Used) by Financing Activities	3,862.9	(47.5)
Increase in Cash and Cash Equivalents	$ 789.4	$ 41.3

See accompanying notes to consolidated condensed financial statements.

1. Background

These consolidated condensed financial statements do not include certain information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. However, in the opinion of management, all adjustments necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the 26 weeks ended Nov. 25, 2001, are not necessarily indicative of the results that may be expected for the fiscal year ending May 26, 2002.

These statements should be read in conjunction with the consolidated financial statements and footnotes included in our annual report for the year ended May 27, 2001. The accounting policies used in preparing these financial statements are the same as those described in our annual report, except as described in Note 4.

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

2. Acquisitions

On Oct. 31, 2001, we acquired the worldwide Pillsbury operations from Diageo plc (Diageo). The transaction was accounted for as a purchase. Under terms of the agreement between General Mills and Diageo, we acquired The Pillsbury Company (Pillsbury) in a stock and cash transaction. Consideration to Diageo included 134 million General Mills common shares. Under a stockholders agreement, Diageo had a put option to sell directly to us 55 million shares of General Mills common stock at a price of $42.14 per share. Diageo exercised that option on Nov. 1, 2001. Those 55 million shares were valued at a total of $2,318 million. The 79 million shares of General Mills common stock retained by Diageo were valued at $3,576 million, based on the three-day average selling price prior to the closing of $45.27 per share. Therefore, the total stock consideration was $5,894 million. Cash paid to Diageo and assumed debt of Pillsbury totaled $3,830 million. As a result, the total acquisition consideration (exclusive of direct acquisition costs) was approximately $9,724 million.

Under the agreement, Diageo holds contingent value rights to be paid to Diageo on the 18-month anniversary of the deal closing, based on the number of General Mills shares Diageo continues to hold on that date. If the General Mills stock price is less than $49 per share at the 18-month anniversary, Diageo will receive an amount per share equal to the difference between $49 and the actual General Mills stock trading price, up to a maximum of $5 per share.

The excess of the purchase price over the estimated fair value of the net assets purchased was approximately $8 billion. The allocation of the purchase price is based on preliminary estimates, subject to revisions when appraisals and integration plans have been finalized. Revisions to the allocation, which may be significant, will be reported as changes to various assets and liabilities, including goodwill, other intangible assets, and deferred income taxes. As of Nov. 25, 2001, the goodwill balance includes all of the excess purchase price of the Pillsbury acquisition, as the valuation of specific intangible assets has not yet been completed. We do not anticipate significant amounts to be allocated to amortizable intangible assets.

In order to obtain regulatory clearance for the acquisition of Pillsbury, we arranged to divest certain businesses. On Nov. 13, 2001, International Multifoods Corporation (IMC) purchased the Pillsbury dessert and specialty products businesses as well as certain General Mills brands and the General Mills Toledo production facilities for $316 million. After-tax cash proceeds from this transaction are being used to reduce the debt we incurred to purchase Pillsbury. Additionally, under our agreement with IMC, we expect to expend approximately $70 million for the purchase and installation of certain production assets.

As part of the transaction, IMC received an exclusive royalty-free license to use the *Doughboy* trademark and *Pillsbury* brand in the desserts and baking mix categories. Since the sale of the assets to IMC was integral to the Pillsbury acquisition, and because the assets sold were adjusted to fair market value as part of the purchase of Pillsbury, there was no gain or loss recorded on the sale in the Company's consolidated statement of earnings.

Pillsbury had a 50 percent equity interest in Ice Cream Partners USA LLC (ICP), a joint venture formed with Nestlé USA to manufac-

ture, market and distribute *Häagen-Dazs* and Nestlé ice cream products in the United States. On Dec. 26, 2001, Nestlé USA exercised its right, triggered by the change of ownership of Pillsbury, to buy the 50 percent stake of ICP that it did not already own. Nestlé paid us $641 million for our 50 percent of the joint venture and a long-term paid-in-full license for the *Häagen-Dazs* brands in the United States. The after-tax proceeds from this transaction will be used to reduce debt.

We are reconfiguring our cereal production as a result of selling our Toledo, Ohio, plant to IMC. We are also incurring a number of one-time costs associated with the acquisition of Pillsbury and the divestiture of certain businesses and assets to IMC. See Note 3.

We are evaluating plans to consolidate manufacturing, warehouse and distribution activities into fewer locations. The closure of certain Pillsbury facilities could result in additional severance and other exit liabilities, which would increase the excess purchase price. The integration of Pillsbury into General Mills' operations may result in the restructuring of certain General Mills activities. These actions could result in unusual charges.

3. Unusual Items

In the second quarter of fiscal 2002, we recorded unusual items totaling $109.0 million pretax expense, $68.5 million after tax ($.22 per diluted share), representing $24.8 million pretax of Pillsbury integration costs and $86.8 million pretax of cereal reconfiguration charges, partially offset by insurance settlement proceeds of $2.6 million pretax relating to a 1994 oats handling incident. Last year's second quarter included unusual expense associated with the acquisition of Pillsbury, totaling $1.0 million pretax, $.6 million after tax (no impact on earnings per diluted share).

For the six months ended Nov. 25, 2001, unusual items totaled $94.2 million pretax expense, $59.2 million after tax ($.19 per diluted share), representing $29.3 million pretax of Pillsbury transaction/integration costs; $86.8 million pretax of cereal reconfiguration charges; $4.5 million pretax charges to exit the *Squeezit* beverage business; and $3.5 million pretax, net of insurance recovery, associated with a flash flood at our Cincinnati, Ohio, cereal plant; partially offset by insurance proceeds of $29.9 million pretax from the 1994 oats incident. For the six months last year, unusual expenses associated with the acquisition of Pillsbury were $1.6 million pretax, $1.0 million after tax (no impact on earnings per diluted share).

4. Accounting Rules Adopted

Effective with the first quarter of fiscal 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," which requires all derivatives to be recorded at fair value on the balance sheet and establishes new accounting rules for hedging. On the first day of the current fiscal year, we recorded the cumulative effect of adopting this accounting change, which amounted to $3.1 million after-tax charge ($.01 per diluted share) included in earnings and $158.0 million after-tax charge included in Accumulated Other Comprehensive Income.

On May 28, 2001, we adopted SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Intangible Assets." SFAS No. 141 requires that the purchase method be used for all business combinations initiated after June 30, 2001. SFAS No. 142 eliminates the amortization of goodwill and instead requires that goodwill be tested for impairment. As a result, we do not have goodwill amortization in the current year. Goodwill amortization expense in the first six months of the previous fiscal year totaled $11.3 million pretax, $11.0 million after tax ($.03 per diluted share). We will test our goodwill for impairment during fiscal 2002 and, if necessary, adjust its carrying value.

For complete notes pertaining to these financial statements as well as Management's Discussion and Analysis, see our 10-Q report, available at www.generalmills.com in the Investor Information section under SEC filings. Copies also can be obtained by calling (800) 245-5703.

Happy 60th birthday, Cheerios!

In 2001, the *Cheerios* brand turned 60. That might be retirement age for most consumer brands, but *Cheerios* is still going strong. As a part of the birthday celebration, General Mills issued a commemorative 60th anniversary box featuring the American folk hero, the Lone Ranger, who was a *Cheerios* spokesperson in the 1940s.

The popularity of the Lone Ranger got kids eating *Cheerios* for a nutritious breakfast. Today, the health benefits of this toasted oat cereal appeal to adults, too. In the 1970s, oats was found to be the grain highest in protein, a necessary nutrient. Then in 1998, *Cheerios* was clinically proven to help lower cholesterol as part of a low-fat diet, further advancing its reputation as a nutritious part of a healthy breakfast. While cereals have come and gone over its 60-year history, *Cheerios* continues to be the top-selling cereal in the United States based on dollar sales.

Yoplait's whipped up something new for you!

Is eating healthier one of your New Year's resolutions? Yoplait is making it easier for you with its newest product, *Yoplait Whips!* Introduced nationally in January, *Whips!* gives you a great-tasting, mousse-like treat with all the health benefits of traditional yogurt. You probably know yogurt is a good source of calcium. Yoplait has made it even better by fortifying *Whips!* with vitamins A and D.

Providing consumers with delicious new products is one of the reasons Yoplait leads the $2.3 billion yogurt category, where sales have grown at a 13 percent rate over the last year. So go ahead and indulge – you won't be breaking that New Year's resolution, thanks to *Yoplait Whips!*

And the winner is...

In February 2002, the lucky winners of the 2001 *Pillsbury Bake-Off* Contest will be announced in Orlando, Fla. This contest, with its million-dollar grand prize, is the nation's most prestigious cooking competition. Every other year, tens of thousands of hopeful cooks vie for honors and national recognition by submitting an original recipe using a *Pillsbury* product as a main ingredient. Entrants compete in a number of recipe categories including "Easy Weeknight Meals" and "Fast and Fabulous Desserts and Treats."

This 52-year-old event generates extraordinary consumer awareness and excitement, and is one of the company's largest in-store merchandising opportunities for its brands. Product promotions at local grocers get consumers involved in the *Bake-Off* Contest, which leads to increased product sales. You can find out more about the *Bake-Off* Contest and find winning recipes of years past by visiting the contest's Web site at www.bakeoff.com.

Pillsbury Quick & Easy Bake-Off™ Cooking Contest

Can you say Wahoos?

If you can, you know the name of our newest salty snack. *Wahoos!* is a light, crispy, corn-based snack available in three flavors – Original, Nacho Fiesta and Backyard BBQ. Our salty snacks business began in 1966 with the introduction of *Bugles*. With the acquisition of the *Chex Mix* line in 1997 and *Gardetto's* savory snack mix in 1999, sales in our portfolio of salty

snacks have more than tripled in the past five years. The warehouse-delivered snack category has seen significant growth over the past five years and today generates retail sales of more than $1.2 billion. Our expanded snack line allows us to capitalize on this large and growing category.

Hooray and olé for quick meal options

The folks in our Meals division have been hard at work coming up with great-tasting, quick meal options your whole family will love.

In January, *Old El Paso* joins *Lloyd's* heat-and-eat barbecue products with its introduction of refrigerated taco meat. This fully cooked, seasoned beef or chicken is ready for the taco shells after six minutes in the microwave. With its leading dollar share of the $1.8 billion shelf-stable Mexican food category, *Old El Paso* is well positioned to drive further growth with this convenient new product for today's busy families.

The *Green Giant* is helping you round out your meal with large-sized bags of frozen vegetables and sauce. These resealable bags combine one of five vegetables with delicious sauces for combinations like Broccoli and Three Cheese Sauce or *Niblets* Corn in Butter Sauce. By providing the sauces in chip form, you can prepare one to six servings, depending on how many people are coming to dinner.

A blue chip day for General Mills

The completion of the Pillsbury acquisition was certainly a milestone for General Mills – and the company celebrated it. On Nov. 1, 2001, General Mills enjoyed its first day trading on the New York Stock Exchange (NYSE) as the newly enlarged company. To commemorate the day, General Mills distributed thousands of blue chip cookies on the floor of the Exchange, and ads announcing the new blue chip company ran in newspapers nationwide. In addition, Steve Sanger had the honor of ringing the opening bell at the Exchange. News of the completed acquisition was well received on Wall Street, as the stock price rose over a dollar from the previous day's close, to a then all-time high.

With the *Pillsbury Doughboy* looking on, NYSE Chairman Dick Grasso presents Steve Sanger with the Exchange's bull and bear statue. Sanger was in New York City on Nov. 1 to celebrate the first day of trading as the newly expanded General Mills.

LET THE GAMES BEGIN!

GENERAL MILLS IS AN OFFICIAL SUPPLIER TO THE 2002 OLYMPIC WINTER GAMES

General Mills is bringing "Dinner and the Games" to America by providing dinners, yogurt and tons of snacks as an Official Supplier to the 2002 Olympic Winter Games. Over 75,000 people per day are expected to attend the Games in Salt Lake City, Utah Feb. 8 - 24, and General Mills products will be there for everyone to enjoy.

"As a company with a long history of supporting great sports champions, General Mills is proud to supply the training tables of the 2002 U.S. Olympic Team," says General Mills Chairman and CEO Steve Sanger.

These winning snacks are available for a limited time during the 2002 Games.

General Mills' involvement in the 2002 Games will drive sales through innovative promotions and product merchandising. Bonnie Blair, five-time U.S. Olympic Gold Medalist and mother of two, is the spokesperson for the "Dinner and the Games" program, a promotion that combines *Betty Crocker* meals and baking products for a great dinner at home. Blair is traveling around the country, talking to consumers about the importance of the family meal. Michelle Kwan, the reigning World and U. S. National Champion in women's figure skating, is partnering with *Yoplait Exprèsse* to develop future athletes. For every certificate consumers submit from an *Exprèsse* yogurt carton, *Yoplait* will donate $2.00 (up to $100,000) to the U.S. Olympic Committee.

Join Michelle Kwan in supporting future skating champions by purchasing *Yoplait Exprèsse* yogurt.

General Mills also is offering two unique new products for a limited time during the 2002 Games. *Pop Secret* Caramel Nut Clusters are delicious clusters of popcorn, almonds and cashews wrapped in a coating of caramel. And *Fruit Roll-Ups* fruit snacks are showing their support for the U.S. Olympic Team by turning red and blue. Even if you don't attend the 2002 Games, you can join in on the fun by collecting five different General Mills Olympic Winter Games pins. Look for them on product displays at your local grocery store.

General Mills, Inc.
P.O. Box 1113
Minneapolis, MN
55440

Midyear 2002