Annual Report
1984

Pillsbury

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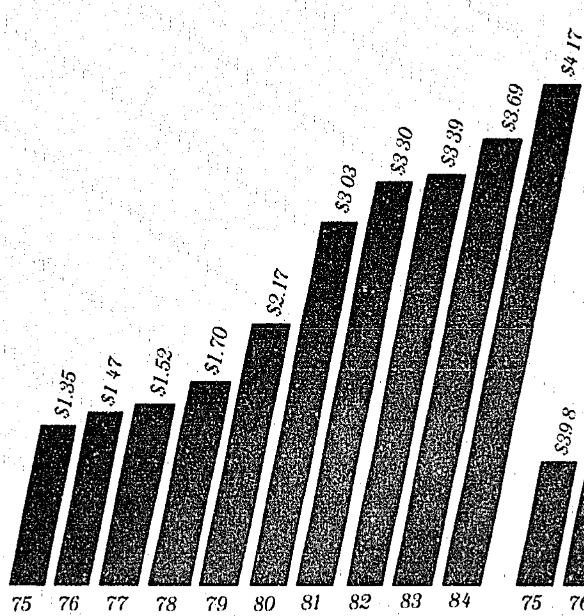
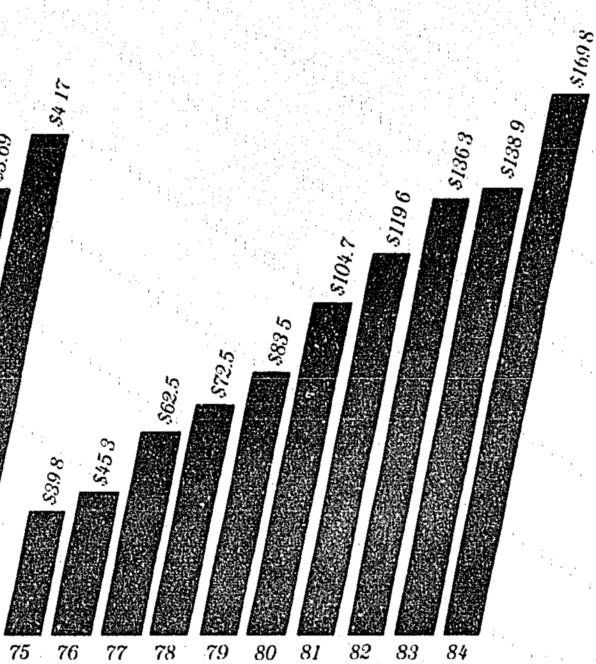
Highlights

	Year ended May 31		
	1984	1983	Increase
	(In millions except per share amounts)		
Net sales	**$4,172.3**	$3,685.9	13 %
Net earnings	**169.8**	138.9	22
Cash dividends	**58.9**	52.5	12
Capital expenditures	**282.4**	243.9	16
Stockholders' equity	**1,046.2**	956.4	9
Return on average equity	**17.0 %**	15.0 %	13
Return on average invested capital	**21.9 %**	18.2 %	20
Average number of shares outstanding	**43.5**	43.5*	
Per share:			
Net earnings	**$ 3.91**	$ 3.20*	22 %
Cash dividends	**1.36**	1.21*	12
Stockholders' equity	**24.22**	22.10*	10

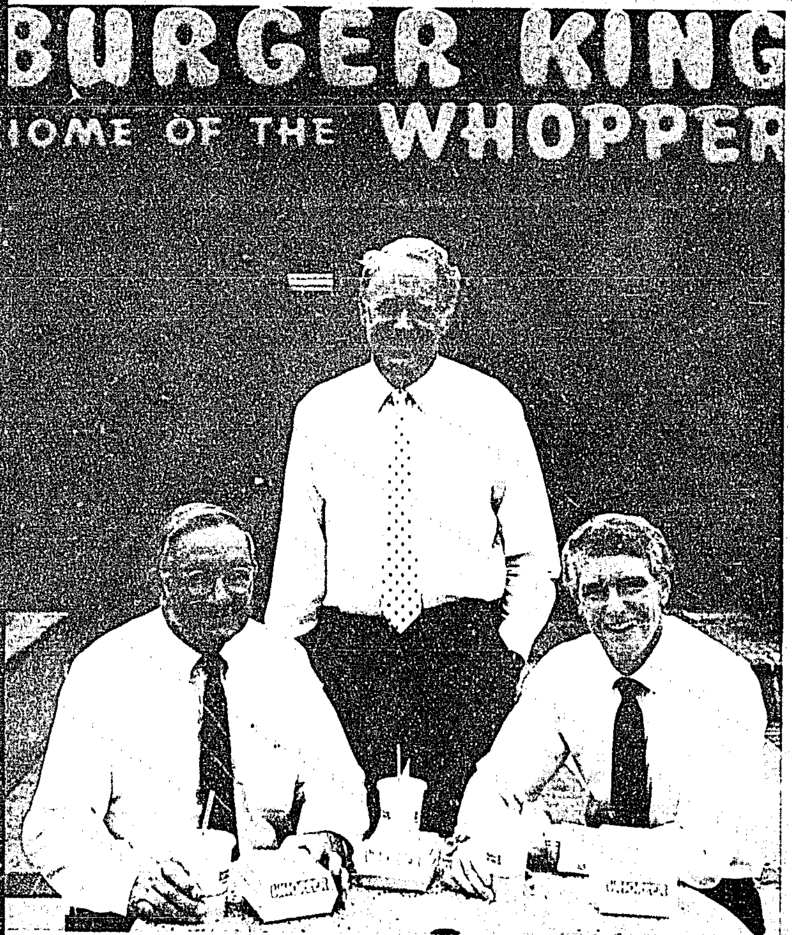
*Restated to reflect a two for one stock split in November 1983



Net sales
(Billions)



Net earnings
(Millions)



Burger King restaurants, the choice of millions during fiscal 1984, enjoyed record returns. Shown from left to right are: William H. Spoor, Chairman of the Board and Chief Executive Officer; Winston R. Wallin, Vice Chairman; and John M. Stafford, President.

In our letter to Stockholders last year we spoke of a "Bright outlook for Pillsbury" and we are pleased that fiscal 1984 fulfilled that promise. The 13th consecutive year of record sales and earnings was the finest in our history.

For our stockholders, the price of Pillsbury's common stock reached new highs during the year, the common stock was split two-for-one and cash dividends were increased 12 percent. It was the 26th consecutive year of increased dividends and the 56th year of uninterrupted dividends.

Year in Review
Fiscal 1984 was a year of significant progress as well as several disappointments. Our sales increased 13 percent to $4.17 billion, surpassing the $4 billion mark for the first time. Earnings increased 22 percent reaching a record $169.8 million.

The most significant contributor to 1984's gains was the vitality of the Burger King Corporation. Emphasis on basic business fundamentals, coupled with creative and innovative marketing programs, generated sales increases of 20 percent and operating profit improvement of 60 percent over year-earlier levels. We anticipate that this momentum will continue but at a somewhat slower pace.

Pillsbury's other restaurants also were important contributors to 1984's results. Steak and Ale and Bennigan's established new highs in operating profit and J.J. Muggs, a new concept featuring gourmet hamburgers, is now being tested in an expanded mode.

Consumer Foods maintained its growth profile as sales and operating profits also set new records. A predictable and growing profit-producer, Consumer Foods markets such recognized household names as Pillsbury, Green Giant, Totino's, and since July of 1983, Häagen-Dazs, the nation's leading producer of super premium quality ice cream.

Fiscal 1984's results in Consumer Foods were influenced by several factors. New products, product line extensions and proliferations helped to increase volume in Refrigerated and Frozen Foods. As anticipated, Häagen-Dazs had an excellent year. Stable raw material costs and on-going productivity programs were positive contributors.

Pillsbury's international Consumer Foods businesses generated volume gains and a number of tactical acquisitions were successfully concluded. While Pillsbury's businesses outside of the United States showed improved profitability in local currencies, the strength of the U.S. dollar penalized profits when foreign gains were translated into domestic currency.

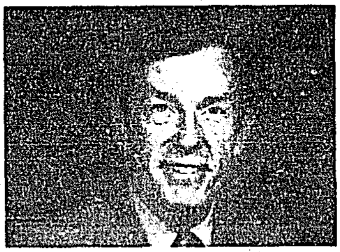
Agri-Products, despite continuing softness in the U.S. farm economy and diminished foreign demand for U.S. agricultural products, was able to report a substantial improvement in operating profit. Nevertheless, Agri-Products' financial performance remains below acceptable levels. Restructuring aimed at productivity and minimizing volatile swings in earnings continues.

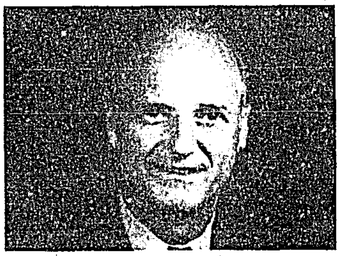
Capital Spending Increases
Pillsbury's capital spending increased dramatically during fiscal 1984 to $282.4 million, a 16 percent increase over 1983's spending of $243.9 million. Restaurant expansion was the primary focus of our capital investment. Burger King restaurants now number 3,827 worldwide. Steak and Ale and Bennigan's restaurants total 332, all in the United States.

Other major capital projects include the construction of a new production facility for Häagen-Dazs ice cream in Tulare, California and several tactical acquisitions in this country and abroad.

Capital spending for fiscal 1985 calls for expenditures of $340 million, again primarily directed at Pillsbury's Restaurants and Consumer Foods Groups.

Executive Changes
The increasing divergence and complexity of our businesses led to the decision to increase the Executive Office in February from two to three members by promoting two of the signatories of this report—Winston R. Wallin to Vice Chairman and John M. Stafford to President. This added strength in the Executive Office will support our continued efforts to profitably expand the Company.


Donald R Dwight


Norman E. Brinker

In accordance with policy, two members of our Board of Directors did not stand for reelection this year after a combined 14 years of service. We are grateful for the wise counsel and advice of Donald R. Dwight and Norman E. Brinker for those years. We are also pleased to welcome our newest member, Donald F. Craib, Jr., Chairman and Chief Executive Officer of Allstate Insurance Group to Pillsbury's Board of Directors.

Corporate Citizenship
The good fortune that we have enjoyed in recent years has enabled The Pillsbury Company to continue to share its success with the many communities it serves. During fiscal 1984, charitable contributions exceeded $4 million for the first time, bringing our total contributions for the past decade to more than $20 million.

Outlook
We are well positioned strategically and look to the future with a high degree of confidence. Our basic restaurant and food businesses are strong and we expect meaningful growth from each segment. New restaurant concepts, designed to complement our existing businesses, are being tested.

We have excellent market shares throughout the Consumer Foods business and we intend to strengthen those positions with acquisitions and new products both in the United States and abroad. While the current environment for Agri-Products has not changed significantly, the restructuring we have accomplished over the past two years increases the likelihood for improved profitability over both the short and long term.

Finally, we are convinced that we have the most important ingredient for any successful enterprise—highly trained, enthusiastic and motivated men and women, all of whom are dedicated to quality. Nearly 8,700 of these men and women are stockholders. We thank them all for their contributions to our success and for the important roles they will play in the future of our Company.

We also thank you, our stockholders, for your continuing support. We invite you to join us at Pillsbury's annual meeting at the Guthrie Theatre in Minneapolis at 2 p.m. on Tuesday, September 11.

William H. Spoor

William H. Spoor
Chairman and Chief Executive Officer

Winston R Wallin

Winston R. Wallin
Vice Chairman

John M. Stafford

John M. Stafford
President

July 13, 1984

Philip W. Pillsbury:
1903-1984

Philip W. Pillsbury leading the parade of contestants at the San Diego BAKE-OFF Contest, February 1984.

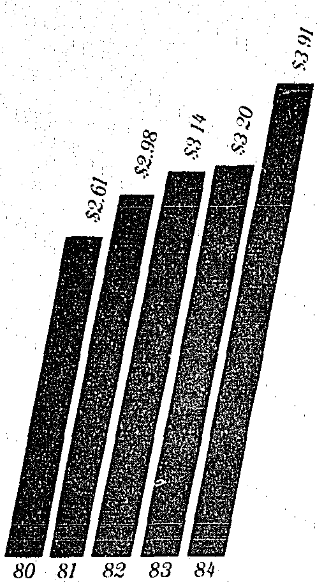
Philip Winston Pillsbury, who worked his way from laborer to master miller to Chairman of the Company founded by his grandfather, died June 14 of cancer. He was 81 years old.

Mr. Pillsbury, Chairman Emeritus of The Pillsbury Company, was elected President of the Company in 1940 and, 12 years later, Chairman. He retired in 1968.

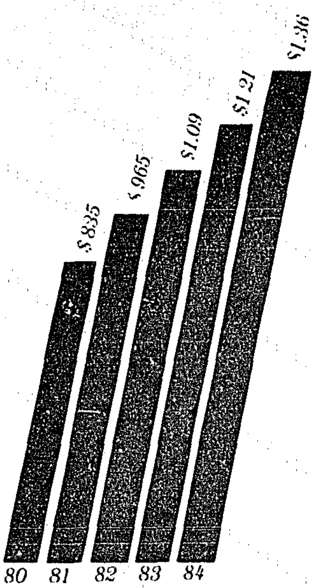
Creator of Pillsbury's Research and Development division, Mr. Pillsbury helped launch the Company into a new era of prosperity. His development of home baking mixes, his promotion and product diversification efforts, and his special affection for and guiding influence in America's BAKE-OFF® Contest were contributions that The Pillsbury Company continues to enjoy.

Truly a man for all seasons, Philip Pillsbury distinguished himself with his compassion for others and sincere interest in the individual, wisdom, foresight and wit.

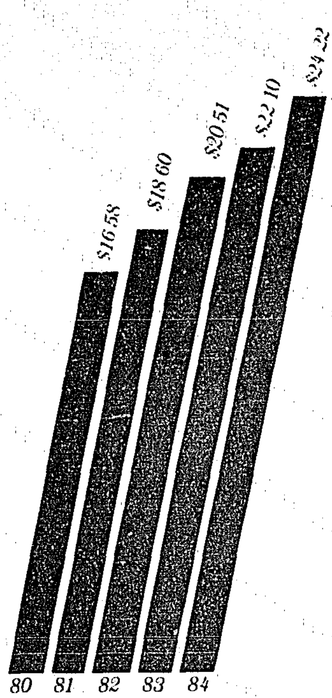
All who knew him will miss him.



Earnings per share



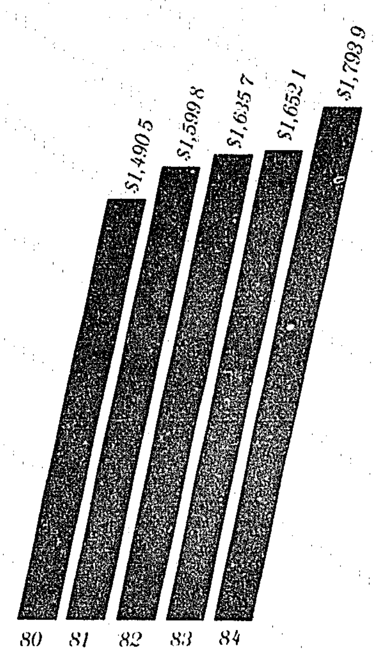
Cash dividends per share



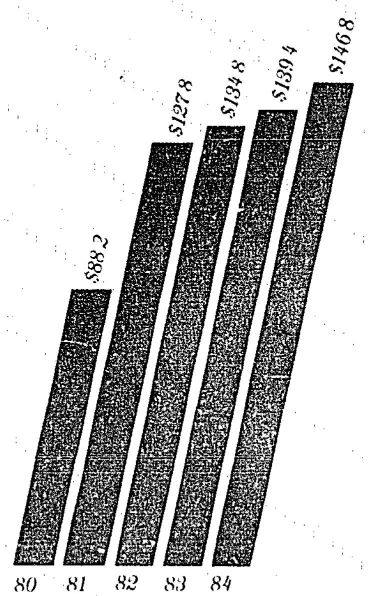
Equity per share

Foods Group

Consumer Foods



Net sales
(Millions)



Operating profit
(Millions)

Pillsbury's Foods Group, comprised of domestic and international Consumer Foods and Agri-Products, experienced another record year. Sales increased 10 percent to $2.40 billion and operating profit rose 16 percent to $181.3 million.

Highlights for the year for the Foods Group include:

- Volume growth of 10 percent for domestic Consumer Foods.
- Volume growth of four percent for international Consumer Foods.
- An increase of 111 percent in operating profit for Agri-Products from depressed prior-year results.

Consumer Foods

Acquisitions, new products and product line extensions, and continued focus on asset management characterized the record setting performance of the Consumer Foods Group during fiscal 1984.

Sales, volumes and operating profit all established new highs with operating profit increasing five percent over fiscal 1983. Results of the Consumer Foods Group include domestic and international consumer foods operations.

Highlights of the year for domestic businesses include:

- Substantial acquisition activity including Häagen-Dazs®, Apollo® Foods, Azteca® Corn Products and Sedutto™ Ice Cream.
- Volume growth of 10 percent led by Häagen-Dazs and Frozen Foods.
- Continued improvement in return on invested capital.
- Improved positioning for future growth of new products.
- Improved manufacturing performance and lower ingredient costs.

Fiscal 1984's performance was led by strong profit gains from Refrigerated Foods and Häagen-Dazs with important volume growth in Frozen Foods. Due to a severely reduced domestic vegetable crop and the significant attention given to ethylene dibromide (EDB), the Dry Grocery business experienced a marginal year with profits and volumes somewhat below fiscal 1983.

The year also was characterized by ongoing efforts to improve productivity and reduce expenses. Continued emphasis was placed on increasing the efficiency of Pillsbury's distribution network. A continuing dedication to inventory control and asset management also contributed positively to year-end results.

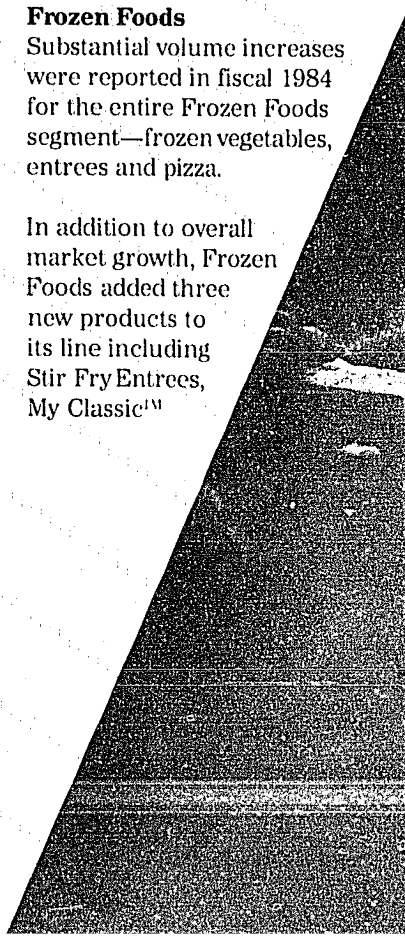
Acquisitions made by the Consumer Foods Group contributed substantially to fiscal 1984's progress. Häagen-Dazs, the super premium quality ice cream business acquired in July 1983, had an exceptionally strong performance during fiscal 1984. In addition, Azteca Corn Products, a manufacturer of refrigerated tortillas, and Apollo Foods, a producer of high quality ethnic foods, were acquired late in fiscal 1984 and are performing well. The acquisition of Sedutto Ice Cream Corporation was completed in June 1984 and will enhance the food service penetration of Pillsbury's ice cream business.

The growth of Consumer Foods was also enhanced by the introduction of several new products and product line extensions. Developed in Pillsbury's research and development facilities, these new products made essential contributions to product vitality and consumer interest. The Consumer Foods Group is particularly well positioned for new product introductions for fiscal 1985. Entrance into several new food categories, combined with a continued proliferation of current products, will provide significant growth opportunities for the future.

Frozen Foods

Substantial volume increases were reported in fiscal 1984 for the entire Frozen Foods segment—frozen vegetables, entrees and pizza.

In addition to overall market growth, Frozen Foods added three new products to its line including Stir Fry Entrees, My Classic™



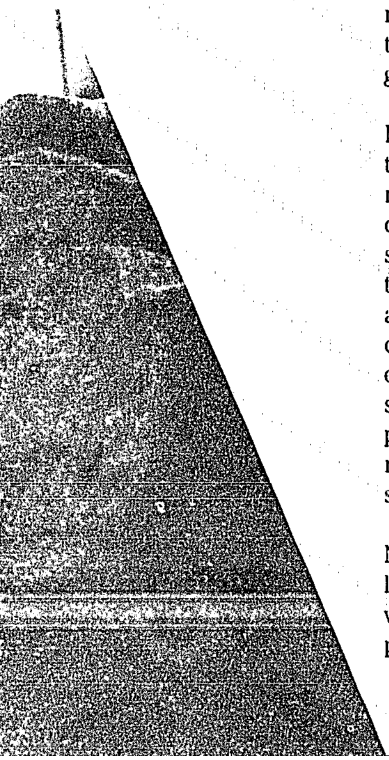
The acquisition of Häagen-Dazs ice cream makes a perfect complement to Pillsbury's other consumer favorites.

Exciting, great-tasting new products and product line extensions are making their Pillsbury debuts across the nation.

Pizza and Microwave Pizza. Green Giant Harvest Fresh® vegetables, introduced last year, also added broccoli spears and chopped spinach to its line of boil-in-bag premium quality vegetables.

In fiscal 1985, Toaster Strudel breakfast pastry, a high quality, convenience-oriented product, will be introduced into a portion of the United States. The product will mark Pillsbury's Frozen Foods entrance into the rapidly growing breakfast market.

Refrigerated Foods
Refrigerated Foods recorded its third consecutive year of increased volume in fiscal 1984. Both sales and operating profit set new highs. Continued emphasis on efficiency and productivity contributed significantly toward solidifying Pillsbury's market leadership.



A number of product line extensions were initiated within Refrigerated Foods Pipin' Hot Loaf™, which was introduced early in fiscal 1983, added a new wheat variety. Other refrigerated dough products, including Pillsbury's Best Cinnamon Rolls and Apple Danish and Pillsbury Soft Breadsticks, have successfully completed test marketing and will enter national distribution in fiscal 1985.

Pillsbury's biscuit business showed renewed vitality in fiscal 1984 due, in part, to increased and innovative marketing and promotional support.

Dry Grocery
Dry Grocery products experienced a difficult year in fiscal 1984. A severely reduced vegetable crop resulting from adverse weather factors and significant public attention given to the grain fumigant ethylene dibromide (EDB) more than offset strengths throughout the canned and grocery businesses.

Despite reduced volume, the canned vegetable business achieved outstanding operating profit due to a strengthened management team, improved productivity and increased cost efficiencies. Mushrooms and peas enjoyed record profits and strong market leadership positions while asparagus regained its lead in market share.

New products and product line extensions combined with preparation for major product introductions planned for fiscal 1985 are expected to contribute to the health and growth of the grocery products business

Fiscal 1985 will mark Pillsbury's debut into the fastest growing segment of the grocery store, the ready-to-eat snack category. Milk Break™ milk bar consisting of crispy wafers, creamy filling and chocolaty coating entered national distribution in May

Häagen-Dazs
In its first year as a member of Pillsbury's Consumer Foods Group, Häagen-Dazs performed exceptionally well with marked increases in sales, volume and operating profit.

Due to continued new product awareness and marketing efforts targeted toward new customers, physical volume for fiscal 1984 increased 22 percent. Two new flavors introduced just prior to fiscal 1984, cookies & cream and peach, met with strong public acceptance. Fiscal 1985 will mark the opening of Häagen-Dazs' second production plant in California.

Outlook
The Consumer Foods Group is particularly well positioned for growth in fiscal 1985. Aggressive product expansion as well as major, new product introductions are expected to contribute significantly to profitable volume growth. Continued focus on asset management, productivity and distribution programs are also expected to contribute to the achievement of another record year.

Consumer Foods

Group Vice Presidents
Kent C. Larson*
Thomas R. McBurney*

Senior Vice President
James R. Behnke*

Vice Presidents
Howard E. Bauman
John E. Dixon
L. Thomas Gartner
Edward A. Januschka
Mary Ellen Jenks
Gary F. Klingl
Joel Levine
Robert L. Lindsay, Jr.
Daniel J Locke
Lloyd V Lofgren
Warren G. Malkerson
W. Richard Nickel, III
Donald A. Osell*
James T. Petersen
Kenneth A. Pond
Kenneth J. Reis
Anthony L. Scherber*
Jimmy A. Shadler
Jolyon A. Stein
Michael Symeonides
Rose W. Totino
Kenneth J. Valentas
Virginia L. Ward*
Tom N. Wilkolak
Lawrence P. Youngblood

Häagen-Dazs

President
Kevin M. Hurley*

Executive Vice President
George F. McCarthy

*Consumer Foods Management Committee

Produced in Belgium by Gringoire/Brossard, these delicious Tournai cookies, so popular in Europe, are now being sold in select U.S. markets.

International

Investments in its core businesses, tactical acquisitions and new organizational structures helped the International Group portfolio remain strong during fiscal 1984. All wholly-owned businesses in the Group finished fiscal 1984 ahead of last year in their respective local currencies. However, the strength of the U.S. dollar against foreign currencies resulted in operating profit below fiscal 1983.

Highlights of the year include:

- A consolidation of facilities and more aggressive support of brand franchises in Canada.
- A series of acquisitions expanding the German frozen food business.
- The culmination of a $20 million expansion of the Jamaican flour mill.
- The acquisition of a 50 percent ownership of a Hong Kong-based manufacturer of Chinese sauces and frozen foods.
- Continued strength in Pillsbury's French and West German subsidiaries.

Canada

Pillsbury Canada, Ltd., experienced modest increases in both volume and operating profit during fiscal 1984. During the year, a restructuring of the business—including more aggressive advertising and improved price value actions—significantly increased long-term growth opportunities. In general, market share was maintained at or slightly above the previous year's level.

Europe

European activity for fiscal 1984 centered around the United Kingdom, West Germany, France and Belgium.

In January 1984, Pillsbury formed a new subsidiary—Pillsbury U.K., Ltd.—which is comprised of H.J. Greens and Hammonds Sauce Co., Ltd., and is responsible for the marketing and distribution of Green Giant canned corn. H.J. Greens, the clear market leader in cake mixes, reported earnings slightly above the previous year in local currency. Hammonds Sauce Co., Ltd., is restaging and improving its product line.

In France and Belgium, the Gringoire/Brossard group of companies reported record profits for fiscal 1984 despite general economic difficulties in its principal markets. Investments in facilities made during the past two years are expected to yield cost saving benefits in fiscal 1985.

West German subsidiaries continued their outstanding performance with volume and earnings of all segments ahead of last year. Erasco and Jokisch, producers of canned dish-ready meals, set volume and profit records and the combined brands increased their share of the dish-ready meal market to over 50 percent.

Backfrost, a producer of frozen specialty sandwiches, was acquired in fiscal 1984. Together with Hofmann Menü, a regional manufacturer of institutional frozen prepared meals, they represent a strong entry into specialty niches of the West German frozen food market.

Asia/Pacific

For fiscal 1984, the International Group focused its attention in the Asian/Pacific region of the Philippines, Taiwan and Hong Kong.

While experiencing its best year ever, Pilmico, the Philippine flour mill and consumer products company in which Pillsbury holds a minority interest, experienced diluted earnings due to a substantial devaluation of the Philippine peso.

In Hong Kong, Pillsbury formed a joint venture with the Amoy Canning Corporation, a Hong Kong-based producer of Chinese sauces and frozen specialties.

Latin America

In the Latin American region, attention continued to be focused on Venezuela, Mexico and Jamaica.

In Venezuela, despite a significant devaluation of the bolivar, political uncertainty and an economic slowdown, Pillsbury's flour and pasta businesses performed well.

In Mexico, Grupo, Pillsbury's flour and pasta joint venture, enjoyed a good year despite a difficult economy. In the Mexico City area, Grupo maintained its leadership in the high quality pasta market.

Jamaican Flour Mills Ltd., for which Pillsbury has management responsibility, continued its major expansion program that is expected to double capacity.

Consumer Export

The Consumer Export Division, marketers of Pillsbury consumer products outside the United States, achieved record volume despite the unfavorable impact of the strong U.S. dollar on exports. The world market for canned sweet corn, a major product line, continued to grow in fiscal 1984 and Pillsbury maintained or increased its dominant market share in several key markets.

Outlook

The International Group has experienced dramatic growth in both sales and volume during the past five years. Its challenge for fiscal 1985 and beyond is to continue that growth profitably through both acquisitions and internal product development while maintaining the strength of its current businesses.

International

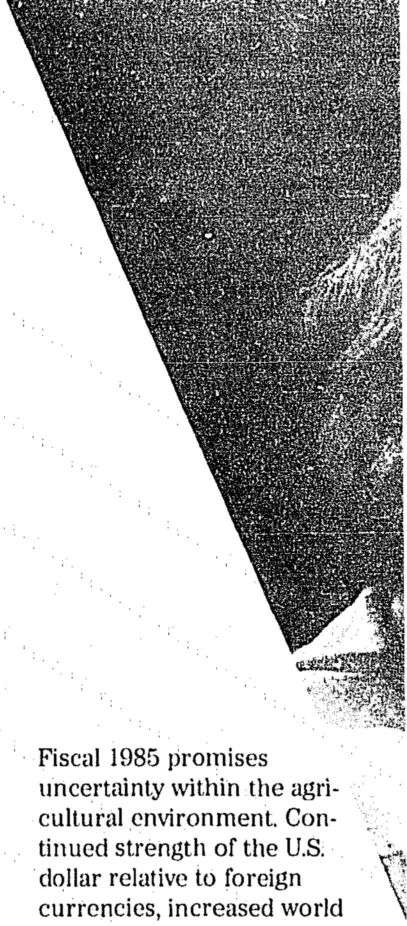
Group Vice President
John L. Morrison*

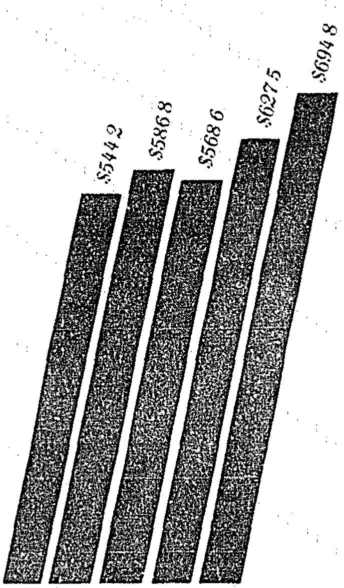
Vice Presidents
Jock A. Flournoy*
Grahame R. Francis*
John C. Lenker*

Country Managers
David Atkinson, United Kingdom
William G. Bullis, Jamaica
Hans-Joachim Denecke,* West Germany
Michael S. Dingee, Venezuela
Yves Dumont, France
Peter Hamm, Guatemala
Masami Iketani, Japan
J. Thomas Kirchner, Mexico
Dr. Chris Leong, Hong Kong
Donald E. Loadman, Canada*
Don Moraza, Philippines
Bruce A. Noble,* United Kingdom
Victor Scherrer, France*

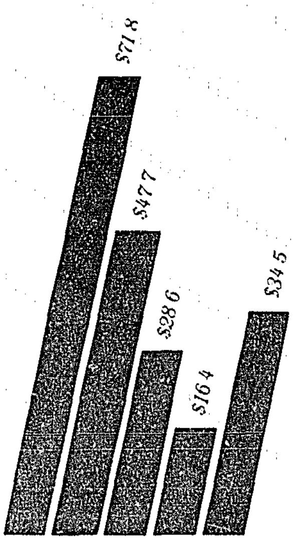
***International Management Committee**

Foods Group





Net sales
(Millions)



Operating profit
(Millions)

Agri-Products

Despite increased international competition, lagging world trade and continued supply/demand imbalances in the domestic agricultural environment, fiscal 1984 can be characterized as a partial recovery year for Pillsbury's Agri-Products Group. Compared to fiscal 1983's depressed levels, the Group's sales increased over 10 percent while operating profit more than doubled. However, profits for fiscal 1984 remained below acceptable levels in barge transportation, grain exporting, rice milling and edible beans.

Highlights of fiscal 1984 include:

- A restructuring of the Grain Merchandising Division and a return to profitability from domestic operations.
- A strong performance by the bulk commodities business resulting in the fifth consecutive year of record volume and operating profit.
- The third consecutive record year for both volume and operating profit in the flour milling business.
- The first complete year of operation for the expanded Los Angeles flour mill.
- Significant increases in volume and operating profit for the feed ingredient merchandising business.

Grain Merchandising

Grain Merchandising activity includes domestic grain marketing, barge/rail transportation, Pillsbury Commodity Services and bulk commodities.

Led by its domestic grain and bulk commodities businesses, Pillsbury's Grain Merchandising Division experienced marked improvement in operating profit for fiscal 1984. Opportunities presented through the government Payment-In-Kind (PIK) program and increased volume in the bulk commodities operations outweighed industry weakness in the export grain and barge transportation businesses.

Restructuring efforts, which began in fiscal 1983 to reposition the Grain Merchandising Division for the future within the domestic agricultural environment, continued during fiscal 1984. Ongoing efforts include a series of operational consolidations, a continued redeployment of assets and reductions in administrative and marketing expenses.

Pillsbury's bulk commodities operation, which transports and handles coal, fertilizer and other bulk products on inland waterways, experienced its fifth consecutive year of increased volume and operating profit aided by an improved global economic environment.

Improvement in the utilization of Agri-Products' rail transportation segment significantly improved its contribution to fiscal 1984 results over the previous year. However, barge rates for fiscal 1984 remained severely depressed resulting in limited opportunities for this segment of the transportation business.

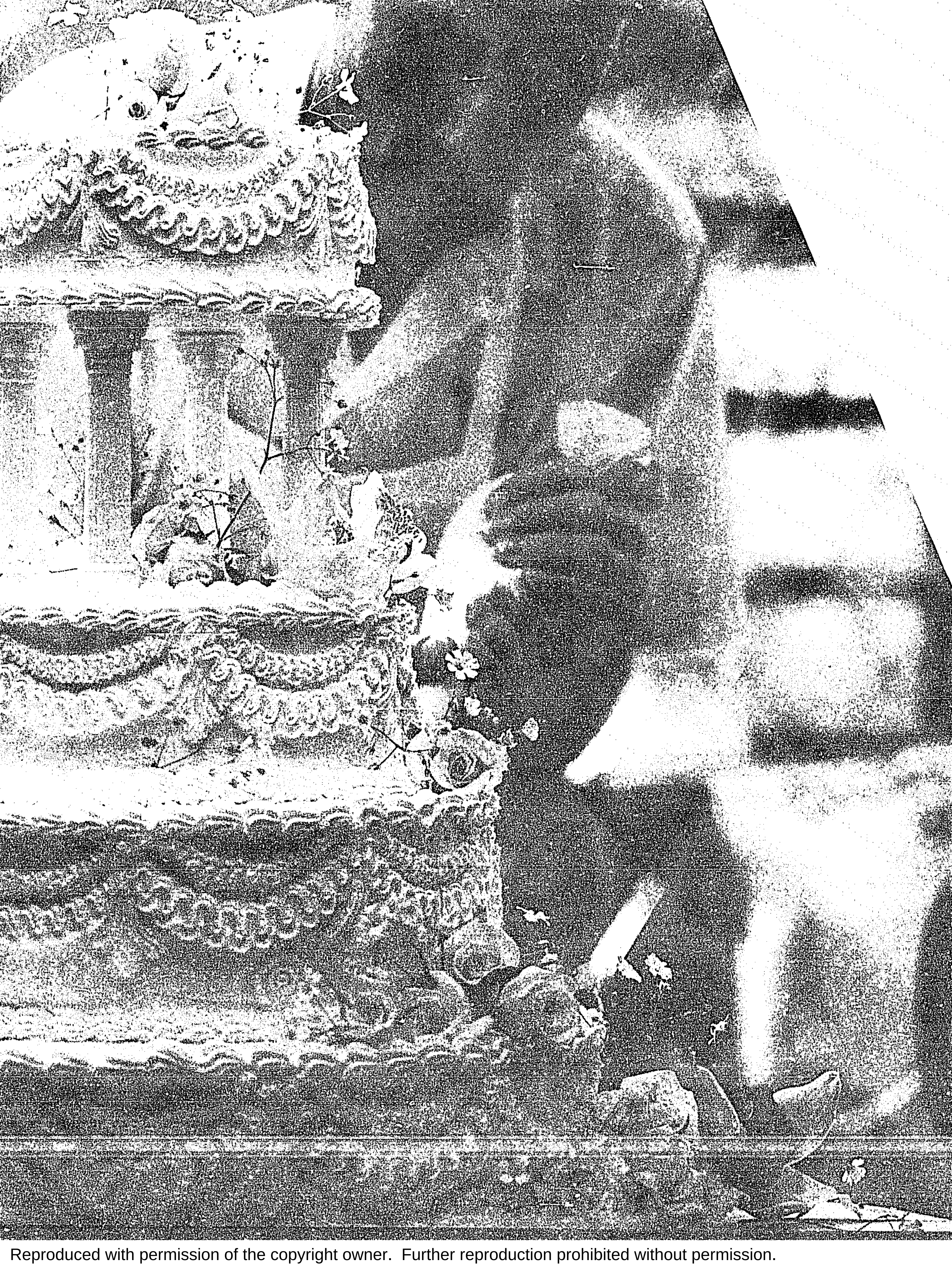
Fiscal 1985 promises uncertainty within the agricultural environment. Continued strength of the U.S. dollar relative to foreign currencies, increased world competition and an uncertain world economy will make the commodity environment difficult to predict over the next year. The repositioning of Pillsbury's Grain Merchandising activities in fiscal 1984 and its continued efforts during fiscal 1985 are designed to coordinate the strengths of grain handling and marketing with expanded activities in bulk commodities.

Industrial Foods

Pillsbury's Industrial Foods operation continued to produce record volume and near record operating profit due to the strength of its flour milling operations. Bakery products operations experienced a decline in profitability due to sharply higher ingredient costs.

One of the principal factors contributing to Pillsbury's flour milling success was the completion of the United States government's subsidized program to provide one

Pillsbury's Best flour, the foundation of the Company's 115-year history, continues to experience strong consumer appeal.



million metric tons of U.S. flour to Egypt. While Pillsbury was a major participant in the Egyptian flour program, key marketing efforts also were successfully directed toward specialized domestic flour markets. Pillsbury's food technology and research skills, combined with broad manufacturing capabilities, will continue to maintain the Company's leadership role in flour and bakery mix markets throughout the United States.

Pillsbury also continued a major capital investment program in its flour and bakery mix facilities. Fiscal 1984 marked the first complete year of operation for the expanded Los Angeles flour mill.

The fiscal 1985 outlook for flour milling depends largely upon the vitality of the domestic market. Dietary trends toward increased consumption of food high in complex carbohydrates provide optimism for further growth in flour consumption.

Specialty Commodities
Agri-Product's Specialty Commodities group, which includes feed ingredients, export marketing, rice milling and edible protein, experienced mixed results.

The feed ingredient business, including its export marketing group, recorded marked increases in both volume and operating profit for fiscal 1984. Led by industrial by-products, the feed ingredient operation finished with operating profit significantly higher than fiscal 1983.

For fiscal 1984, rice milling and edible beans recorded a disappointing year. Both operations continued to be beset by industry-wide problems—namely reduced export demand due to foreign competition, large industry inventory carry-overs from the previous year and competitive price pressure in domestic markets. These factors led to a decline in operating profit.

Midwest Processing Company
Due to severely depressed industry margins and reduced sunflower seed production, the Midwest Processing Company (M.P.C.), a sunflower oilseed crushing plant in which Pillsbury owns a 46 percent interest, sustained operating losses for fiscal 1984, necessitating a restructuring of the business during fiscal 1985. Operating results for M.P.C. are not included as part of Agri-Products.

Outlook
While facing many of the same problems in the agricultural economy as last year, fiscal 1984 was not nearly as severe for the Agri-Products Group due, in large part, to the ongoing restructuring of its portfolio. However, while the Grain Merchandising and Specialty Commodities businesses will continue efforts to reposition themselves within the industry, all of the fundamentals for a satisfactory recovery are not yet in place. The 1985 farm legislation, the strength of the U.S. dollar against foreign currencies and continued economic growth will play a major role in determining the vitality of United States agriculture and its world markets.

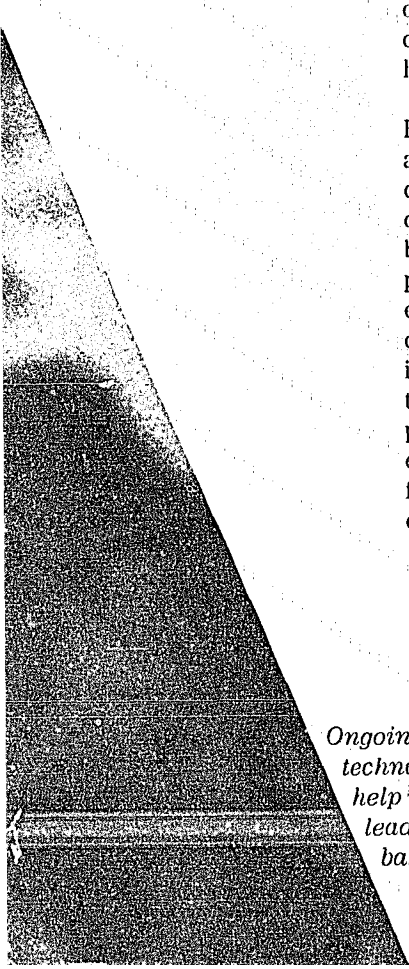
Agri-Products

President
Richard A. Coonrod*

Group Vice Presidents
Russell J. Bragg*
Philip J. Lindau*
Robbie M. Westmoreland*

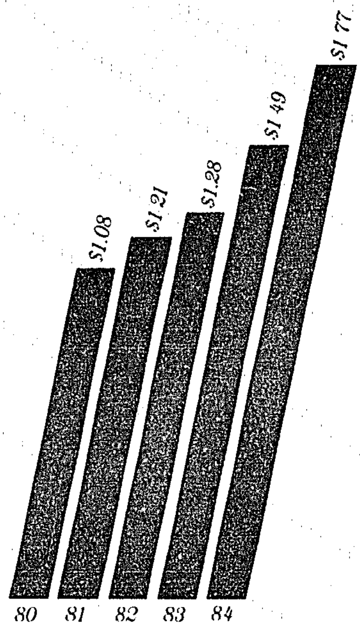
Vice Presidents
Donald E. Brummer
John R. Cox
David W. Dean
Diana L. Doshan*
William W. Hay*
David B.M. Jones*
Charles E. Moore*
James A. Woerner

***Agri-Products Management Committee**

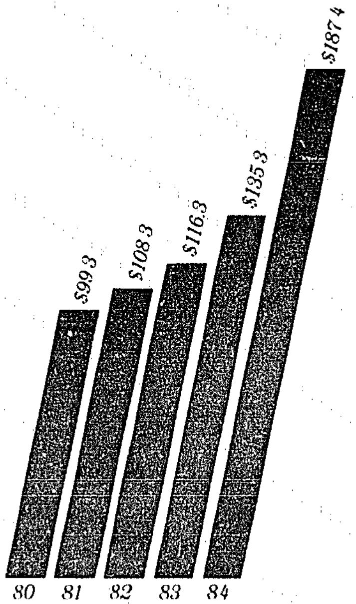


Ongoing emphasis on food technology and research help maintain Pillsbury's leadership role in the bakery mix market.

Restaurants Group



Net sales
(Billions)



Operating profit
(Millions)

Pillsbury's Restaurants Group, comprised of S & A Restaurant Corp., Burger King Corporation and The Häagen-Dazs Shoppe Company, Inc., experienced another record year. Sales increased 18 percent to $1.77 billion and operating profit rose 38 percent to $187.4 million.

Highlights of the year for the Restaurants Group include:
- Record operating profit for Burger King® reporting a 60 percent increase over the previous year.
- The third consecutive year of real average unit sales growth within the Steak and Ale® concept.
- Substantial construction and remodeling activity throughout the entire Restaurants Group.
- The opening of the J.J. Muggs restaurants concept.
- The acquisition of Häagen-Dazs Shoppes.

S & A Restaurant Corp. opened 51 new restaurants during fiscal 1984, including eight Steak and Ale units, 40 Bennigan's restaurants and three of the new J.J. Muggs concepts. In addition, 86 restaurants—60 Steak and Ale and 26 Bennigan's—underwent substantial remodeling efforts. For the year, S & A Restaurant Corp. recorded a 25 percent increase in sales and a 16 percent increase in operating profit over fiscal 1983.

Burger King enjoyed its most successful year in fiscal 1984, led by an aggressive and effective marketing campaign and substantial growth in new restaurants. During the year, Burger King opened 356 new restaurants raising the total number of worldwide units to 3,827. The average annual sales for all domestic restaurants increased 13 percent to $944,000 while operating profit increased substantially over the past two years.

In its first year of operation within Pillsbury's Restaurants Group, Häagen-Dazs Shoppes also recorded a successful year with an increased number of units and a continuation of high consumer acceptance.

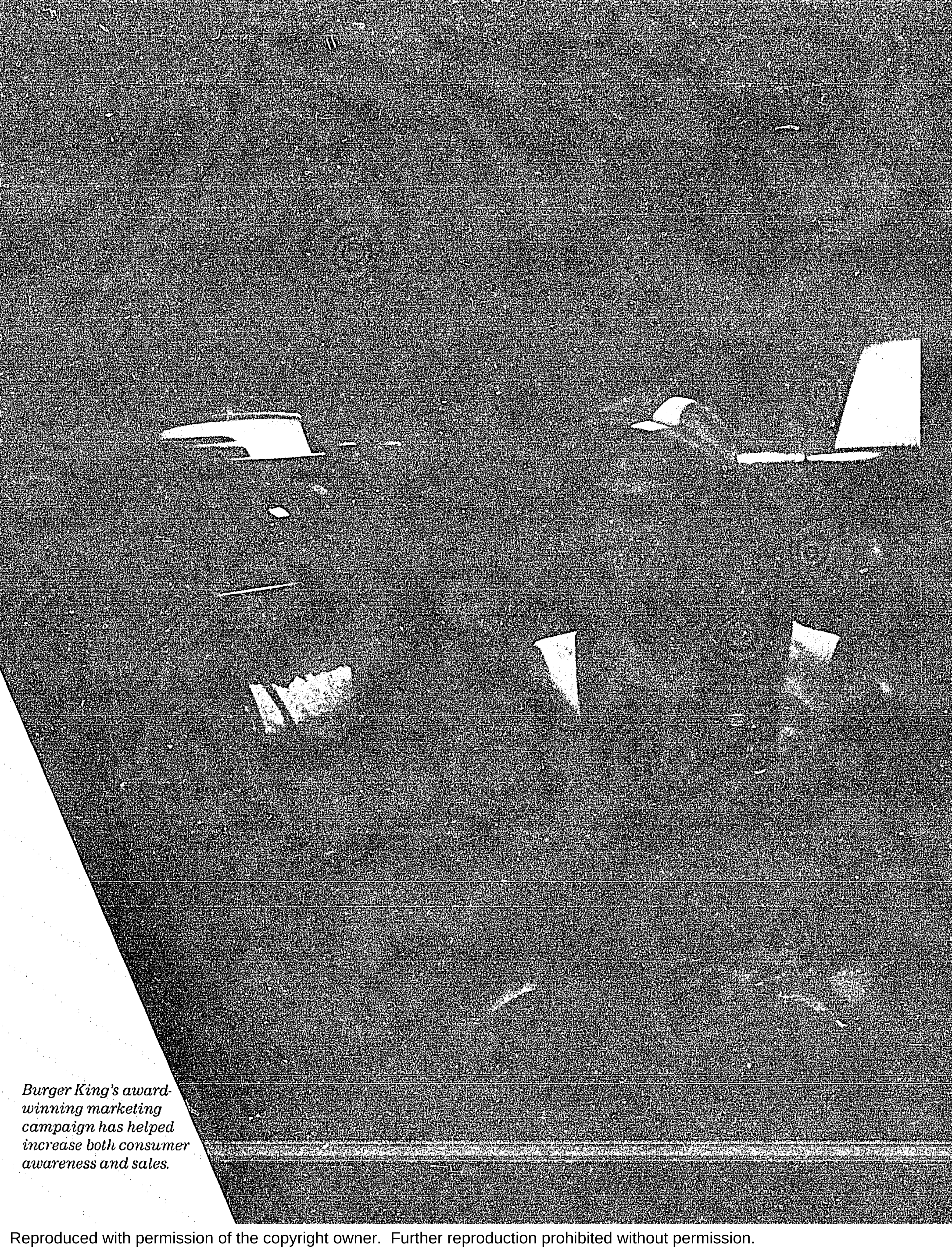
Burger King Corporation

Burger King continued its unbroken string of successes in fiscal 1984 with record-breaking financial performance, industry leadership in increased sales, and major achievements in competitive franchise development programs.

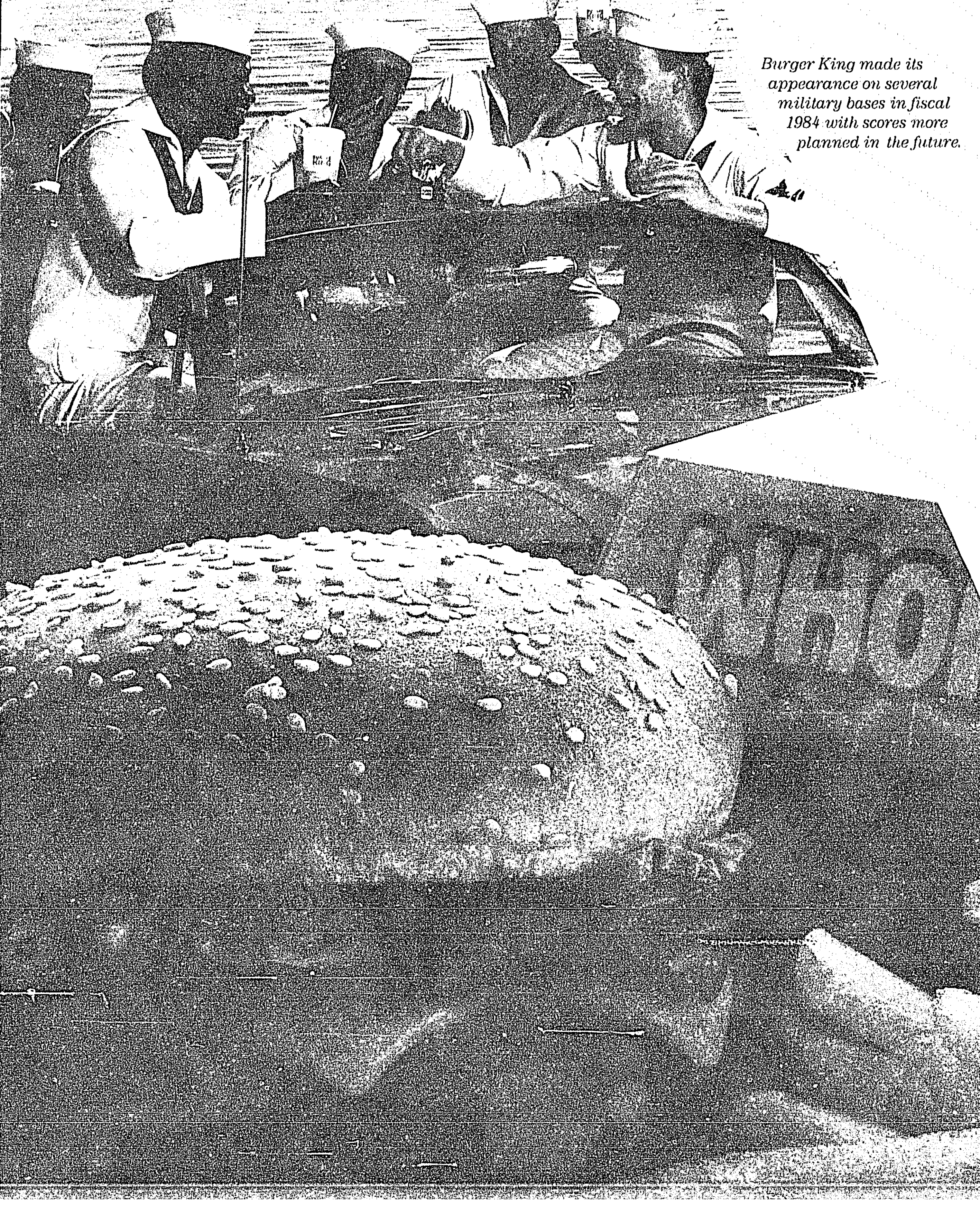
For the year, Burger King systemwide sales rose 22 percent to $3.43 billion. Over the past two years, operating profit increased 74 percent while the return on invested capital has increased almost eight percent, from 18 percent to nearly 26 percent.

Strong sales, coupled with productivity improvements, are responsible for significant increases in store operating profit. Average sales for all domestic restaurants increased to $944,000 during fiscal 1984, a 13 percent increase. Company-operated stores had significantly higher sales, averaging $1.04 million per location, while domestic franchise operations increased to $928,500 per year.

During fiscal 1984, Burger King opened 356 new restaurants, 84 more than in fiscal 1983. Of those additions, 82 were company-operated restaurants, nearly twice the number opened during the previous year. Of the 3,827 restaurants worldwide, Burger King now operates 14 percent as company-operations. Plans for fiscal 1985 include increasing the number of new company-operated stores while also expanding the number of franchise operations. Relations with franchise owners were strengthened, with added efforts targeted for fiscal 1985 in the areas of franchise agreements, policy and communications.



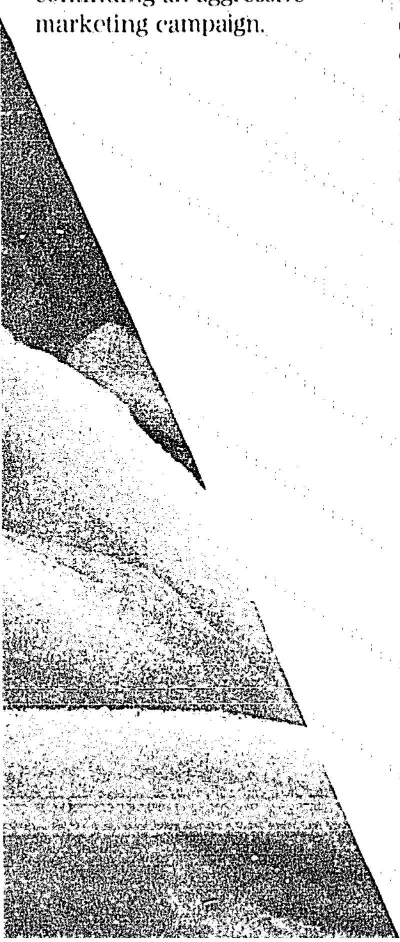
Burger King's award-winning marketing campaign has helped increase both consumer awareness and sales.



Burger King made its appearance on several military bases in fiscal 1984 with scores more planned in the future.

Decentralization of Burger King operations continued in fiscal 1984 with the creation and staffing of three regional divisions located in the U.S. The divisions, established in Miami, New York and Denver, function as profit centers and will enable Burger King management to work more closely with the franchisees and respond more quickly to opportunities.

Burger King continued its award winning "Aren't You Hungry?" marketing campaign throughout fiscal 1984. Other sub-campaigns, including national Switch Week and the continued emphasis on broiling versus frying, helped increase both sales and consumer awareness. Plans for fiscal 1985 call for continuing an aggressive marketing campaign.



During the year, Burger King operations increased their emphasis on improving quality, consistency and productivity at the store levels. Programs initiated in fiscal 1984 are expected to yield marked benefits during fiscal 1985.

Burger King also continued its active development of new products during the year. Salad bars, which made their national debut in early fiscal 1984, were widely accepted. The new breakfast croissant sandwich was introduced to almost 40 percent of the Burger King system. A breakfast buffet, featuring a variety of egg and pancake toppings, was also introduced on a limited test basis.

Burger King's institutional development program experienced substantial progress in fiscal 1984, including winning a successful bid for the largest single franchise agreement in its history. The bid, awarded by the Army and Air Force Exchange Service (AAFES), a unit of the U.S. Department of Defense, calls for AAFES to open up to 185 Burger King restaurants on Army and Air Force bases over a five-year period. Burger King was also awarded bids for three restaurants on U.S. Navy bases. Development of restaurants in facilities owned by such diverse institutional franchisees as F.W. Woolworth, Howard Johnson's and Greyhound Corporation also continued in fiscal 1984.

Burger King also made significant progress during fiscal 1984 in its minority-related programs due, in large part, to its covenant with its Minority Franchise Association and the People United to Save Humanity (PUSH) organization. Under its first full year of the agreement, Burger King made improvements in its minority hiring, contributions, franchising and procurement programs. Burger King will remain committed to the goals and philosophy embodied in the covenant.

Distron, Burger King's procurement and distribution division, completed another successful year as an independent supplier to Burger King restaurants.

While experiencing losses during fiscal 1984, Burger King's international operations improved substantially over the previous year. New management teams in Canada and Europe and increased investment spending contributed to the improvement. Early results of remodeling efforts are producing marked increases in sales throughout Europe. However, high occupancy expenses and continued investment spending to support franchisees in Europe will continue to generate losses throughout fiscal 1985.

Burger King Corporation

Chairman
J. Jeffrey Campbell

President
J. B. Ruenheck

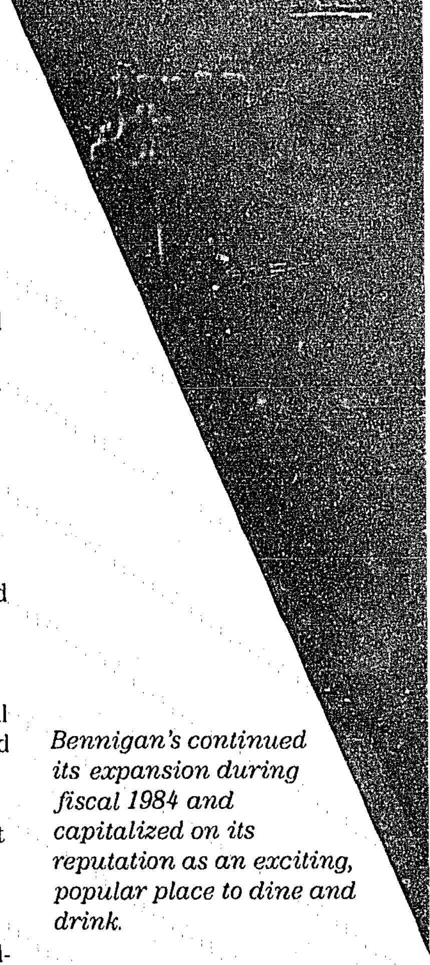
Executive Vice Presidents
A. Bruce Craig
Jay O. Darling
William T. de Laet
Glenn W Jeffrey
Larry W. Kohler
Charles S. Olcott

Senior Vice Presidents
John A. Barnes
C. Donald Dempsey
John G. Johnson
Charles Kanan
William E. Prather
Allen G. Shuh
Robert H. Sorensen
Joel J. Weiss
Richard P. White

Vice Presidents
Marcel Bergeron
Joseph P. Bisignano
Oliver P. Brown
Herman Cain
Nicholas A. Castaldo
Robert A. Cathcart
Kyle T. Craig
Guido Espinosa
Matthew J. Fairbairn
Eugene D. Feola
Stephen A. Finn
Suzanne H. Fox
Paul R. Gershen
Robert S. Hill
John H. Kemp, III
Sheldon M. London
Donald G. Manson
Michael H. McCaffrey
Charles R. Petty
Mitchel E. Rhoads
Tony B. Rolland
Wayne A. Saunders
Douglas R. Schrank
Jeffrey T. Seeberger
James Gaylon Smith
Richard P. Snead
Roger Steven Sparling
Paul T. Sutherland
William W. Swart

Häagen-Dazs Shoppes

President
Doris Mattus Hurley



The Häagen-Dazs Shoppe Company, Inc.

Häagen-Dazs Shoppes, acquired in July 1983, enjoyed a successful year marked by a substantial increase in the number of new units. During fiscal 1984, Häagen-Dazs added 71 new "dipping stores" throughout the United States, for a total of 316 units located in 32 states.

Häagen-Dazs Shoppes now offer 23 flavors of ice cream including a new product, cookies & cream, the most popular flavor in the company's history. Plans include the development of additional new flavors designed to meet ongoing consumer demand for variety.

Plans for fiscal 1985 call for a continued increase in the number of domestic Häagen-Dazs Shoppes—both franchise operations and company-operated stores. In addition, two stores have opened in Singapore with plans to open other international Häagen-Dazs Shoppes during the year.

S&A Restaurant Corp.

Fiscal 1984 for S & A Restaurant Corp. can be described as a year of continued growth—growth in real sales, operating profit and in a record number of new restaurants.

During the year, 51 new restaurants were opened—bringing the total number of units within the S & A Restaurant Corp. family to 332. Steak and Ale, the successful nationwide dinner house, and Bennigan's®, the popular fern bar, were joined in fiscal 1984 by a new member of the S & A Restaurant Corp., J.J. Muggs, a casual dining restaurant located in the southwest and southeast. The three concepts combined for $556 million in total sales—an increase of over 25 percent during fiscal 1984.

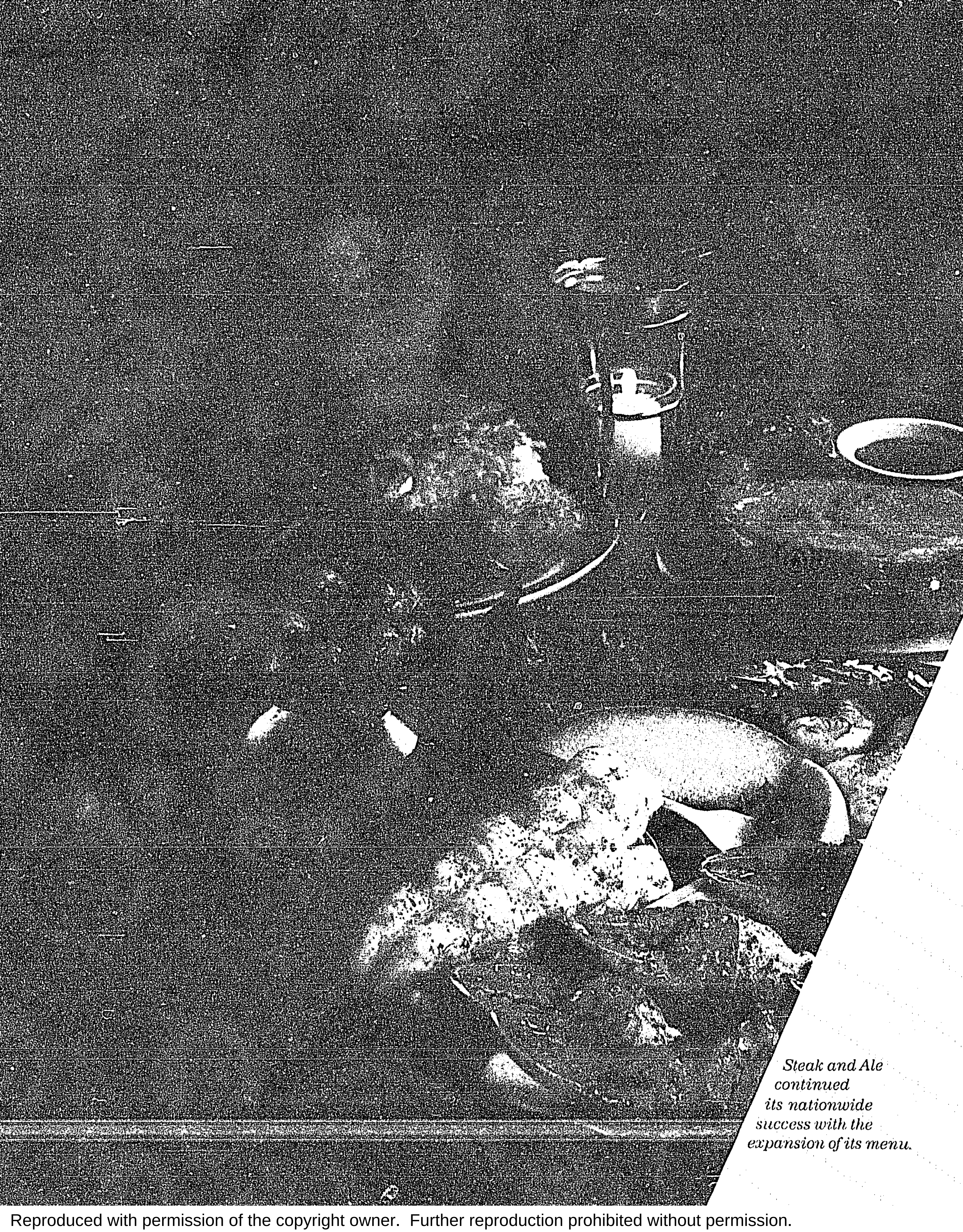
The Steak and Ale concept reported its third consecutive year of real average unit sales growth with average restaurant sales increasing to $1.5 million. In addition to the profitable management of existing restaurants, considerable attention was given to identifying markets for future expansion. During the year, eight new units were added for a total of 178 restaurants in 33 states throughout the country. In addition, 60 Steak and Ale units were remodeled in an ongoing program to insure the vitality of the concept. S & A Restaurant Corp.'s Asset Management Program continued with the sale of six Steak and Ale units. Plans for fiscal 1985 include the addition of eight new Steak and Ale restaurants in high potential locations.

During the year, new items were placed on the Steak and Ale menu to meet ongoing customer demand for variety. In addition to the expansion of the menu, emphasis continued to be placed on a broad price range. While red meat continued as the staple of the menu, seafood and poultry were also emphasized during fiscal 1984.

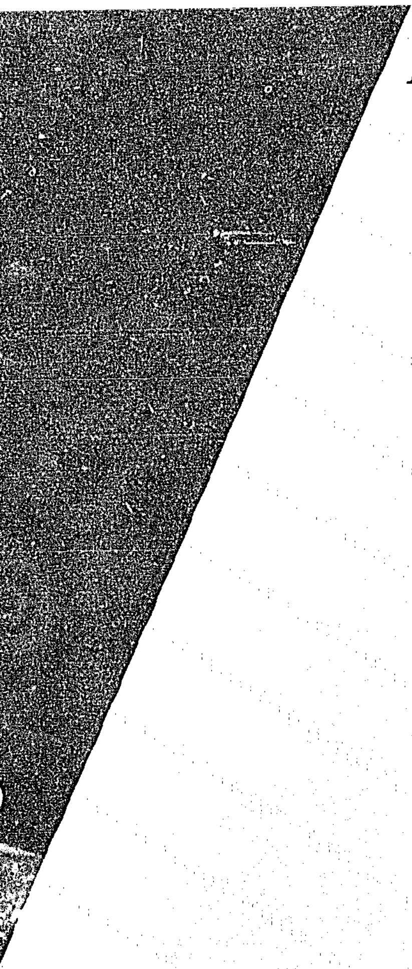
The Bennigan's concept remained strong during fiscal 1984 with increased sales and operating profit due to the substantial growth of new restaurants. The average unit sales for the year was $2.3 million.

Bennigan's also played a leadership role in addressing the social issues relating to driving and drinking by instituting a number of programs including offering non-alcoholic drinks, encouraging use of taxis to prevent intoxicated individuals from driving, and establishing a minimum age policy which requires anyone served after 9:00 p.m. to be 21 years of age or older. Particular attention has been focused on the training programs for employees as related to the prevention, recognition and handling of alcohol-related problems.

Bennigan's continued its expansion during fiscal 1984 and capitalized on its reputation as an exciting, popular place to dine and drink.



Steak and Ale continued its nationwide success with the expansion of its menu.



Restaurants Group

Bennigan's remodeled 26 units utilizing a new design concept and added 40 new units—raising the total number of restaurants to 148. In slightly over two years, more than 100 Bennigan's restaurants have been built, with plans to add 35 additional units during fiscal 1985.

In an effort to adapt to ongoing market trends, Bennigan's made significant changes in its menu. More salads, sandwiches, and entrees were added to the menu. New product testing will continue during fiscal 1985.

The newest member of S & A Restaurant Corp. is J.J. Muggs®, a gourmet hamburger concept that began in fiscal 1983. Results of the concept's initial year indicate strong consumer acceptance. Targeted as a future growth vehicle, J.J. Muggs now includes five restaurants in Florida and Texas. Plans for fiscal 1985 include the addition of 12 new units in the southeast and southwest. The new concept, which will stress fast service and product quality, will feature a limited menu, including salads, sandwiches, ribs, soft tacos and appetizers.

Outlook

The growth experienced by the Restaurants Group during the last two years has been dramatic. With the increased number of new restaurants, the exceptionally strong management teams currently in place and a continuation of successful marketing efforts, the Restaurants Group anticipates continuing increases in sales and operating profits for fiscal 1985.

S&A Restaurant Corp.

Chairman
Hal W. Smith

President
J. Michael Jenkins

Executive Vice Presidents
Marvin T. Braddock
Richard M. Frank
Michael A. Woodhouse

Senior Vice Presidents
Richard B. Berman
John G. Cook
Michael T. Donovan
Jeffry J. Shearer
Roger F. Thomson

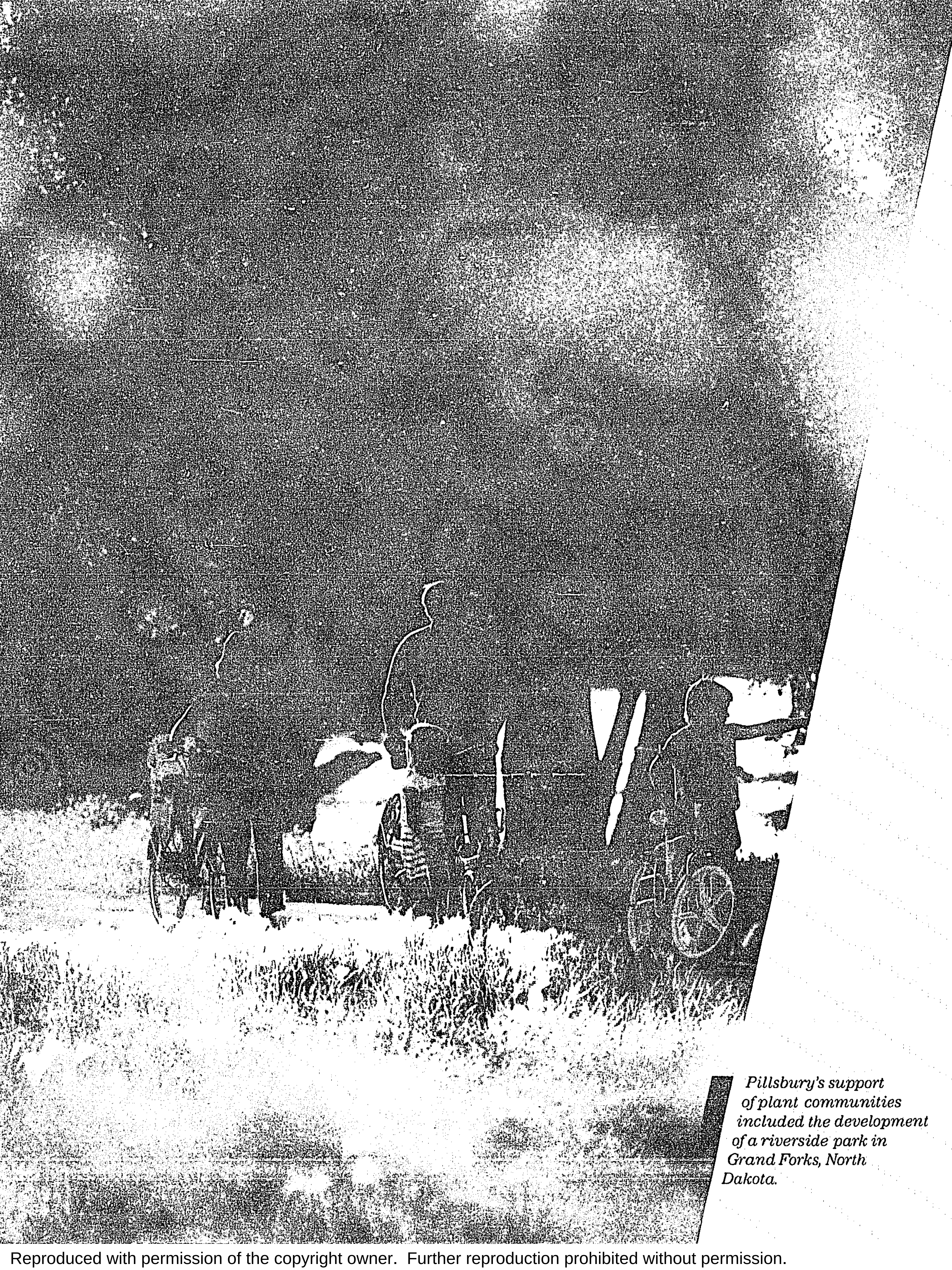
Vice Presidents
Alan G. Anz
Scott W. Burcham
F. Lane Cardwell
Levy H. Curry
Michael J. Matheny

Controller
Vanda M. Davey

Treasurer
David F. Smith

Selected Restaurant Data

	Restaurants		Average annual sales per domestic unit	
	Opened during fiscal 1984	Open at May 31, 1984	Amount (in thousands)	Percent change from prior year
Burger King	356	3,827	$ 944	+13%
Steak and Ale	8	178	1,484	+13
Bennigan's	40	148	2,323	− 2



Pillsbury's support of plant communities included the development of a riverside park in Grand Forks, North Dakota.

Community Relations
Premiership is more than quality products and record earnings. It is responding to the needs and interests of the communities in which Pillsbury employees live and work. During fiscal 1984, the Company and The Pillsbury Company Foundation contributed more than $4.3 million to support civic, educational and cultural programs.

Highlights of fiscal 1984 programs include the following activities:

- Pillsbury helped launch the Minnesota Foodshare campaign, a program which raised nearly three million pounds of food for distribution to food shelves throughout Minnesota.
- Grants totalling over $350,000 were made in 40 communities as part of the Plant Community Program designed to meet pressing local needs. In addition, 50 scholarships were awarded to outstanding seniors in 31 plant communities.
- Pillsbury matched approximately $800,000 in employee gifts directed to the United Way.
- Pillsbury employees devoted hundreds of hours of personal time to such activities as Junior Achievement, Management Assistance Programs, the Twin Cities Marathon and public television.
- Burger King endowed scholarships for minority students at Fairfield University and the Columbia University Graduate School of Business.

Affirmative Action
In addition to Pillsbury's ongoing Equal Employment Opportunity/Affirmative Action programs, fiscal 1984 brought a renewed focus to training and employee awareness.

Managing the Changing Workforce, a series of day-long seminars conducted throughout the year, challenged supervisors and managers to prepare for the growing diversity of the Pillsbury employee population.

Fiscal 1984 marked the first year for Pillsbury's Motivation and Performance Seminar (MAPS) program. Designed specifically for black employees and their managers, MAPS was highly successful and has resulted in a renewed commitment from both parties to improve motivation, performance and the upward mobility of black employees in the Company.

The Burger King Corporation made significant increases in its minority employment programs. Its covenant with Operation PUSH (People United to Save Humanity), the initiation of a Minority College Recruiting program and its continued commitment toward hiring minorities in management-level positions all represented substantial achievements in affirmative action.

Industrial Relations
Continuing emphasis in fiscal 1984 was placed on enhancing positive industrial relations between management, employees and union leadership. Priorities encompassing competitive wages and benefits, quality of the work environment, employee job pride and facility productivity were challenges pursued in a spirit of cooperation. Controlling escalating medical costs was of prime importance during fiscal 1984 labor negotiations with cost containment plans highlighting contract agreements.

During fiscal 1984, 25 labor contracts were successfully renegotiated including a new three-year master agreement with the American Federation of Grain Millers which represents 15 Pillsbury manufacturing, distribution and grain facilities. During fiscal 1985, 21 labor contracts will be open for renegotiation.

Pillsbury Leadership Awards

A new tradition began during 1984 with the presentation of the Pillsbury Leadership Awards. Through this annual event, Pillsbury's management employees are recognized for their significant and unique contributions to the Company.

Those receiving the 1984 Leadership Awards:

The Burger King Management Team

Herman Cain
Region Vice President,
Burger King Corporation

Vanda M. Davey
Corporate Controller,
S & A Restaurant Corp.

Hans-Joachim Denecke
Managing Director,
Erasco, West Germany

Jerry W. Levin
Senior Vice President,
Corporate Development and Treasurer

ReBecca K. Roloff
Director of Distribution,
Pillsbury's Consumer Group

Charitable Contributions Committee

William H. Spoor
Chairman

Diana L. Doshan,
Vice President, Human Resources, Agri-Products

N. Jean Fountain,
Product Manager,
Consumer Foods

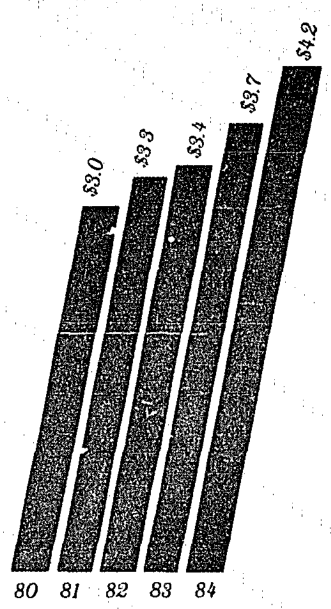
Joel Levine,
Vice President,
Marketing Research

Philip J. Lindau
Group Vice President,
Specialty Commodities

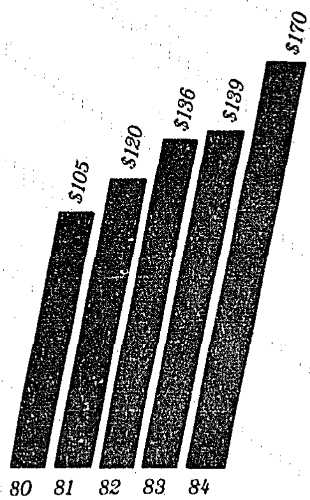
Gerald L. Olson,
Vice President,
Government Relations

Lynn M. Seifert,
Assistant Treasurer

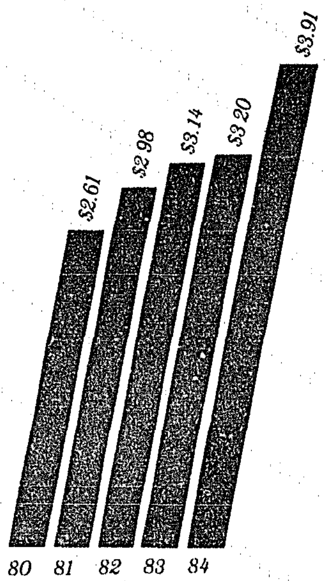
Edward C. Stringer,
Executive Vice President,
General Counsel,
Chief Administrative Officer and Secretary



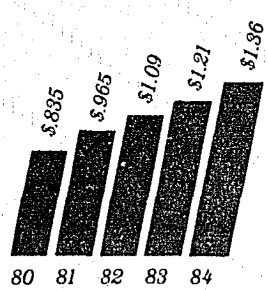
Net sales
(Billions)



Net earnings
(Millions)



Earnings per share



Cash dividends per share

Earnings Double Over Five Year Period

Net sales

Net sales for fiscal 1984 were $4.17 billion, an increase of $1.14 billion over fiscal 1980 sales of $3.03 billion. This represented a compound annual growth rate of 14 percent during the five year period. Fiscal 1984 net sales were 13 percent higher than the $3.69 billion generated in fiscal 1983. The increases were attributable to volume growth from acquisitions, new products and market expansion, restaurant unit expansion and real sales growth, as well as price increases.

Net earnings

Net earnings have grown at a 15 percent compound annual growth rate over the past five years. Fiscal 1984 net earnings of $169.8 million were 62 percent higher than net earnings of $104.7 million in fiscal 1980, and more than double the $83.5 million earned in fiscal 1979. Net earnings for fiscal 1984 were 22 percent higher than the $138.9 million earned in fiscal 1983. The earnings growth in fiscal 1984 was principally due to the increased sales, and the turnaround in grain merchandising operations.

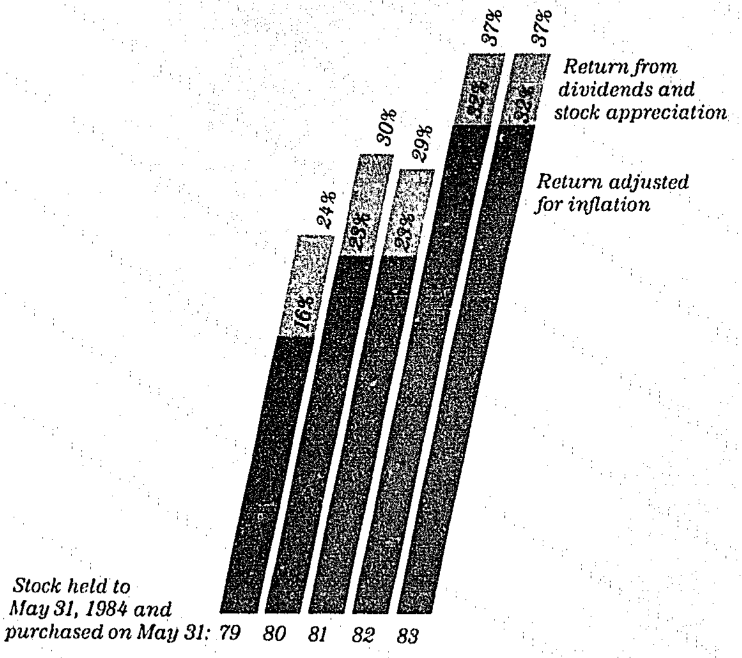
Earnings per share

Earnings per share of $3.91 in fiscal 1984 reflected an increase of 50 percent over fiscal 1980 earnings per share of $2.61 or a compound annual growth rate of 11 percent during the five year period. Earnings per share growth trailed the net earnings growth as a result of an enlargement of the company's equity base due to the fiscal 1982 sale of common stock for the funding of capital requirements. Fiscal 1984 earnings per share increased 22 percent over last year's level of $3.20. After adjustment for inflation as measured by the Consumer Price Index, fiscal 1984 earnings per share were 18 percent higher.

Cash dividends

Cash dividends per share have grown from $.835 in fiscal 1980 to $1.36 in fiscal 1984 representing a five year compound annual growth rate of 13 percent. Dividend policy has been formulated to provide a stockholder with the combination of attractive cash yields and the potential for price appreciation resulting from the investment of earnings retained by the company in projects providing attractive future returns.

In fiscal 1984, dividends of $58.9 million were paid to common stockholders, the 26th consecutive year of increases, and the 56th consecutive year of uninterrupted dividend payments. The dividend payout ratio, the proportion of net earnings distributed as dividends to stockholders, was 35 percent in fiscal 1984.



Return from owning Pillsbury stock

Return From Owning Pillsbury Stock

The annual rate of return, before consideration of individual income taxes, to a stockholder owning Pillsbury stock purchased five years ago and held to May 31, 1984 was 24 percent. This return includes dividends and capital appreciation, and assumes such dividends were reinvested in Pillsbury stock. On the same basis, the annual rate of return to a stockholder owning Pillsbury stock purchased one year ago was 37 percent and reflects the stock's strong market performance over the last year.

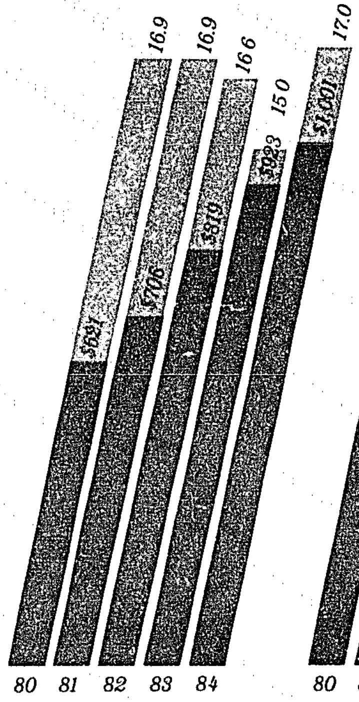
The five year rate of return drops to 16 percent and the one year return to 32 percent when adjusted for inflation as measured by the Consumer Price Index.

Progress Toward Financial Objectives

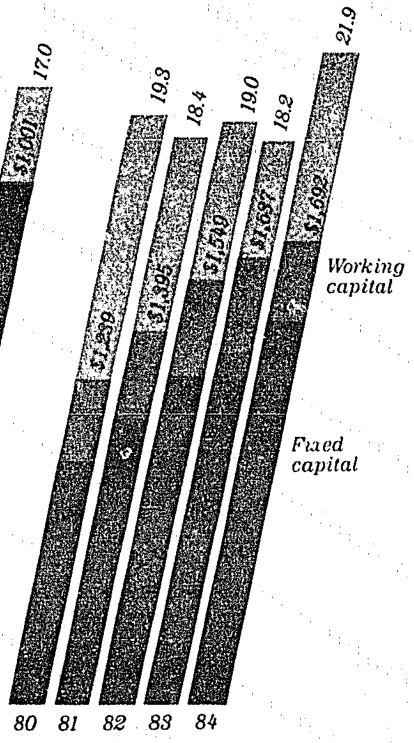
Pillsbury is committed to achieving superior financial results. Pretax return on average invested capital, aftertax return on average equity, earnings per share growth and maintenance of a strong credit rating are the principal means by which management evaluates its competitive performance. These long-term objectives include:

- Pretax return on average invested capital of 25 percent.
- Aftertax return on average stockholders' equity of 18 percent.
- Annual earnings per share growth of 12-15 percent on a nominal basis and 6-10 percent on a real basis.
- A strong "A" credit rating on senior debt and commercial paper of the parent company.

The following information measures current performance relative to these objectives except for earnings per share growth which was provided earlier.



***Average equity** (Millions) **and return** (Percent)*



***Average invested capital** (Millions) **and return** (Percent)*

Return on Invested Capital and Average Equity

Return on average invested capital relates pretax income before interest expense on long-term debt to average invested capital during the year. Invested capital is the permanent capital used in the business and is the sum of long-term debt, deferred taxes, other noncurrent deferrals and stockholders' equity. Average invested capital was $1,691.8 million for fiscal 1984 compared with $1,636.8 million for fiscal 1983, an increase of three percent.

The pretax return on average invested capital increased to 21.9 percent in fiscal 1984 from 18.2 percent in fiscal 1983. The increase resulted from a continuing broad-based asset management program, whereby low return assets are improved or disposed of, while reinvestment focuses on opportunities offering the highest return on invested capital consistent with prudent risk levels.

Average stockholders' equity in fiscal 1984 rose eight percent to $1,001.3 million. Return on equity relates net earnings to average outstanding stockholders' equity during the year. Net earnings of $169.8 million produced an aftertax return on average equity of 17.0 percent, up from the 15.0 percent level reported last year.

Funds Generation and Liquidity

Pillsbury's financial flexibility and strength relate directly to the balance and continuity of the internal generation of funds. The ability to generate a strong, dependable funds flow from operations is a principal factor in determining the company's rate of long-term growth as internally generated funds serve as the primary source of capital.

Total funds generated internally of $482.4 million in fiscal 1984, increased 47 percent from the $329.1 million in fiscal 1983. Funds generated from operations in fiscal 1984 were $312.5 million compared to $243.4 million generated last year.

At May 31, 1984, the company's cash and equivalents balance was $142.5 million, an increase of $12.9 million from the level at May 31, 1983. Cash and equivalents are carried at levels that management deems adequate to provide for short-term liquidity needs. Amounts above those levels are deployed principally into long-term asset categories, yielding the highest possible returns within prudent risk levels.

Pillsbury relies primarily on the issuance of commercial paper, backed by bank lines of credit and revolving credit agreements, to fund seasonal working capital requirements. The company's commercial paper carries an A1/P1 credit rating. Seasonal usage of commercial paper is related primarily to commodity merchandising, flour milling and vegetable processing operations. Usage of commercial paper generally peaks following the fall harvest and declines in the spring. Other short-term borrowings or notes payable, primarily related to foreign subsidiaries, have not been a significant factor in the companys' financing program over the last several years.

Information relative to commercial paper borrowings:

	Year ended May 31		
	1984	1983	1982
	(Dollars in millions)		
Commercial paper outstanding:			
Maximum	**$218.0**	$167.6	$180.0
Average	**117.3**	64.5	51.8
Weighted average interest rate	**9.7%**	10.3%	15.1%

The increase in commercial paper borrowings in fiscal 1984 arose primarily from a higher level of business activity in commodity merchandising.

Total bank credit facilities available to back the issuance of commercial paper by the company during peak seasonal borrowings were $225 million in fiscal 1984 compared with $280 million in fiscal 1983. Available credit facilities at May 31, 1984 totalled $301 million.

Capital Structure

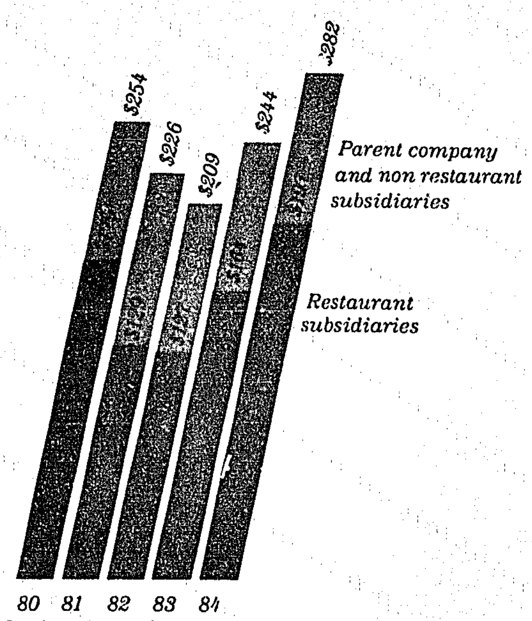
Pillsbury's financing strategy was constructed on the premise that the company's three basic businesses, Consumer Foods, Agri-Products, and Restaurants, had distinct financial requirements and characteristics. Therefore, the restaurant subsidiaries were financed on a separate credit basis to allow those businesses to carry a degree of leverage consistent with their industry. Such leverage had been required to fund the heavy external requirements to sustain the growth rate this segment generated. However, as the external financial requirements of the Restaurants Group declined over the years due to the increased cash generation from operations, and Pillsbury's improving financial posture made broader financing alternatives available, it became more economical and efficient to move to a consolidated financing strategy. Under this consolidated financing system, first implemented in fiscal 1984, Pillsbury has become the primary borrower for most corporate external financing requirements.

Objectives of Pillsbury's financing strategy are to:

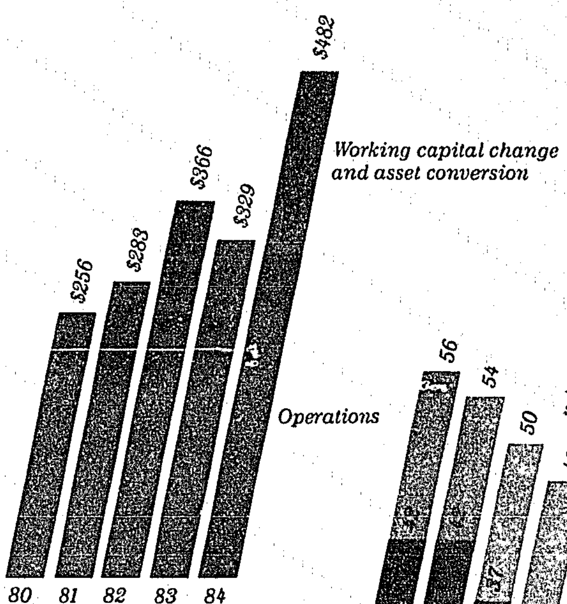
- minimize financing costs while responding to the financial requirements of each business segment,
- fund effectively the business plans, including optimizing utilization of funds within businesses, in order to maximize returns, and,
- maintain adequate financial flexibility on both a short and long-term basis.

Restaurant subsidiaries' debt to total capital ratio declined seven percentage points during fiscal 1984 to 40 percent at May 31, 1984. New borrowings during the year of $4.1 million were more than offset by $24.7 million of long-term debt retirements and an increase in retained earnings, thereby lowering the ratio.

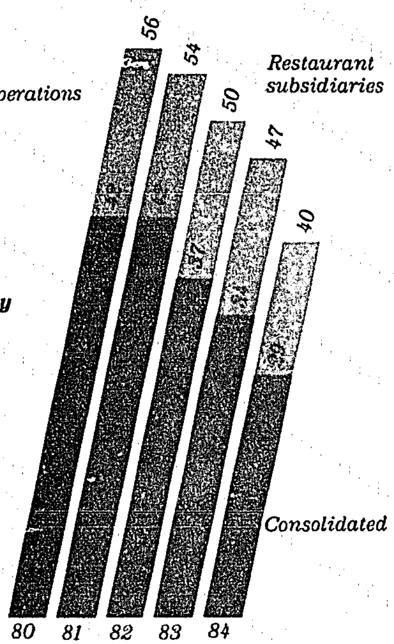
On a consolidated basis, debt to total capital for the company was 29 percent at the end of fiscal 1984, compared with 34 percent at the end of fiscal 1983.



Capital expenditures
(Millions)



Total funds generated internally
(Millions)



Long-term debt as a percentage of capitalization as of May 31 *(Percent)*

Capital Expenditures

New capital projects are subjected to a common discipline of analysis throughout the company. Profit adding projects must generate at least a 16 percent time-weighted aftertax return from net cash flows over the life of the project.

Capital expenditures totalled $282.4 million in fiscal 1984, an increase of $38.5 million from last year.

In fiscal 1985, capital expenditures are expected to total $340 million.

Debt/Equity Swap

In the fourth quarter of fiscal 1984, options held by two financial institutions, resulting from an agreement executed earlier in the year, were exercised to exchange $43.8 million of outstanding Pillsbury debt securities for up to 600,000 shares of Pillsbury common stock and cash. The option exercise resulted in a fourth quarter net gain to Pillsbury of approximately $6.5 million, or 15¢ per share, before any dilution resulting from the planned issuance of the new shares. The exchange must be completed by early October, 1984 and will contribute positively to the company's financial position and increase its financial flexibility.

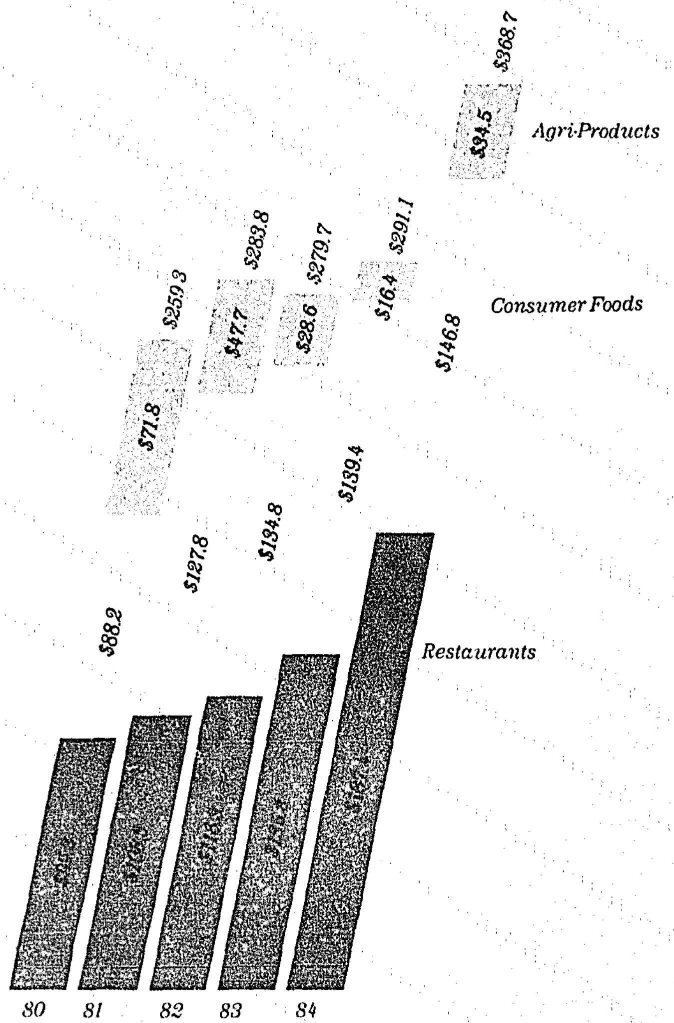
London Stock Listing

In November, 1983, Pillsbury's common stock was listed and began trading on the London Stock Exchange. This listing broadens the market and stockholder base for Pillsbury's stock and contributes to the enhancement of the company's image in Europe and abroad.

Financial Statement Responsibility

Pillsbury management is responsible for the preparation, presentation, objectivity and integrity of the financial statements and related financial information contained in this report. The financial statements have been prepared in accordance with generally accepted accounting principles and all financial information is consistent with such statements.

The company and its subsidiaries develop and maintain internal financial control systems and procedures which provide reasonable assurance that assets are adequately safeguarded, prescribed policies are effectively pursued, and transactions are properly recorded. A comprehensive program of internal audits provides management with a review and monitoring process which augments the system of internal financial controls.



Operating profit
(Millions)

The chart graphically portrays Pillsbury's balanced portfolio of diversified food businesses. The growth of Restaurants and Consumer Foods has been consistent and repetitive. The record of this portfolio continues to give evidence of future growth prospects of Pillsbury.

Industry Segment Data
The following discussion and analysis of the results of operations is organized on an industry segment basis. Discussion and analysis of net sales, operating profit and capital expenditures is provided for each of the industry segments. A financial summary by industry segment is provided on page 32, and a summary by quarter is provided on page 33. A discussion of the impact of inflation on the company's operations is included on pages 46 and 47.

Consumer Foods
Net sales increased nine percent in fiscal 1984 compared with a one percent increase in fiscal 1983. The fiscal 1984 sales increase results from inclusion of Häagen-Dazs, acquired in the first quarter of fiscal 1984, and strong volume gains by Frozen and Refrigerated Foods. Sales declined in Dry Grocery Products, due to lower volume, and the International Group, due to strong U.S. dollar exchange rates. The sales increase in fiscal 1983 is principally due to higher prices.

Operating profit increased five percent in fiscal 1984 and three percent in fiscal 1983. The fiscal 1984 operating profit gain results from inclusion of Häagen-Dazs for 11 months of the year and a strong Refrigerated Foods operating profit increase due to volume gains and favorable raw material, manufacturing and transportation costs. Frozen Foods recorded a small decline in operating profit, despite sales gains, due to increased product and marketing costs while the profit for Dry Grocery Products declined due to lower volumes. The International Group reported higher operating results in local currencies, but the strong U.S. dollar resulted in a decline in translated operating profit versus fiscal 1983.

Fiscal 1983 operating profit reflected improvements through tight control over gross margins and operating expenses, despite strong competition and decreased sales volumes. Operating profit gains were led by Frozen Foods, up 75 percent due to improved gross margins and a favorable new product mix. Dry Grocery Products, Refrigerated Foods, and the International Group all reported increases in operating profit contributions due principally to gross margin gains from favorable manufacturing and distribution costs.

Capital expenditures increased 21 percent in fiscal 1984, following a three percent decline in fiscal 1983. In fiscal 1984, major expenditures were for the new Toaster Strudel and Milk Break production lines, a vegetable processing plant in Mexico and facilities improvements in Canada and France. In fiscal 1983, expenditures included the purchase of a previously leased distribution center, new farm equipment, and the consolidation of European manufacturing facilities.

Restaurants
Net sales increased 18 percent in fiscal 1984 and 17 percent in fiscal 1983. The increase in fiscal 1984 sales is due to higher sales volume per store and new store openings, a continuation of the fiscal 1983 trends. Information on store openings and average sales per domestic unit is included on page 23.

Burger King Corporation registered a 60 percent increase in fiscal 1984 operating profit on 20 percent higher sales. The domestic sales and operating profit contribution increased largely in response to continued aggressive advertising and marketing campaigns, with 13 percent real growth in average sales per domestic company operated unit. International operations recorded a net loss in 1984.

S&A Restaurant Corp. achieved a 16 percent increase in fiscal 1984 operating profit on 25 percent higher sales. Volume increases led to average unit real sales growth of nine percent in the Steak and Ale dinnerhouse concept, while Bennigan's sales increased 43 percent, due entirely to 40 new store openings.

Sales and operating profits of Häagen-Dazs Shoppes are included in the Restaurants segment since its acquisition in July, 1983.

In fiscal 1983, Burger King recorded a nine percent increase in operating profit on 17 percent higher sales, reflecting improved domestic operations, due largely to aggressive advertising and marketing campaigns, with losses recorded for international operations. S & A Restaurant Corp. registered a 28 percent increase in fiscal 1983 operating profit on 22 percent higher sales, with average unit real sales growth of 10 percent in the dinnerhouse concept, while Bennigan's sales increased 67 percent due largely to 43 new store openings. Poppin Fresh Pies, Inc. contributed to sales and operating profit prior to its sale in April, 1983.

Capital expenditures increased 20 percent in fiscal 1984, following a 29 percent increase in fiscal 1983. Major fiscal 1984 expenditures were for new Burger King and Bennigan's units.

Agri-Products

Fiscal 1984 was a year of partial recovery for the Agri-Products Group. Net sales increased 11 percent and operating profit more than doubled. In fiscal 1983, net sales increased 10 percent but operating profit decreased 43 percent. Gross margins from merchandising operations (grain, feed ingredients and export flour), rather than gross sales, are included in net sales.

Grain Merchandising rebounded in fiscal 1984 due to its domestic grain and bulk commodities businesses, but the weakness in the barge transportation segment of the business, together with lower margins in handling and trading activities, persisted from earlier years. Industrial Foods recorded an operating profit increase in fiscal 1984 due to record volume in its flour milling operations while bakery product results were down due to sharply higher ingredient costs. Specialty Commodities experienced a decline in operating profits due to weaknesses in Rice Milling and Edible Protein resulting from reduced export demand, large industry inventory carry-overs and competitive price pressures in domestic markets. Feed Ingredient Merchandising recorded higher sales and operating profit on strong volume increases.

In both fiscal 1983 and 1982, results are characterized by a continuing difficult operating environment. Grain Merchandising reported losses due principally to weakness in the transportation segment of the business, together with lower margins in handling and trading activities. Industrial Foods registered slight gains in operating profit contributions, while Edible Protein contributed more significantly to sales and operating profit in fiscal 1983, its first full year of operation. Feed Ingredient Merchandising and Rice Milling reported declines in sales and operating profit contributions due to narrow trading margins and an industry oversupply of feed grains.

Capital expenditures decreased 34 percent in fiscal 1984 after increasing 32 percent in fiscal 1983. In fiscal 1984, capital spending included completion of the Los Angeles flour mill expansion.

General corporate expense, net

General corporate expense declined $.7 million in fiscal 1984 following a $9.1 million increase in fiscal 1983.

Corporate staff and incentive costs increased by $8.4 million over that incurred in fiscal 1983. However, fiscal 1984 includes a $5.4 million gain on sale of an investment in Stokely-VanCamp common stock and a $6.5 million gain relating to an agreement to exchange cash and common stock for debt. Equity in net losses of unconsolidated affiliates, including Midwest Processing Company, are $3.7 million and $2.4 million in fiscal 1984 and 1983, respectively. Fiscal 1982 results include $3.7 million equity in net earnings of unconsolidated affiliates, as well as a $1.9 million gain from the settlement of claims against corrugated container manufacturers.

Interest expense, net

Net interest expense increased $4.8 million in fiscal 1984, due to higher short-term borrowings, after holding steady in fiscal 1983. Average month-end short-term borrowings of $138 million in fiscal 1984 were up from $81 million in both fiscal 1983 and 1982 due to increased working capital requirements which were not funded by additional long-term borrowings. Fiscal 1983's short-term interest expense declined significantly due to lower interest rates, however this was substantially offset by reduced interest income. (Refer to page 41 for detailed components of net interest expense.)

Taxes on income

The effective tax rate in fiscal 1984 of 44.1 percent is higher than the effective tax rates in fiscal 1983 and 1982 of 39.7 percent and 40.2 percent, respectively, primarily because of the reversal in fiscal 1983 and 1982 of deferred taxes previously provided on unremitted subsidiaries' earnings deemed to be permanently reinvested. (See page 43 for a reconciliation of the expected federal tax rates to the actual effective rates.)

Summary by Industry Segment

Pillsbury is a diversified international food company operating in three major segments of the food industry.

Net sales by segment include both sales to unaffiliated customers, as reported in the consolidated statements of earnings, and intersegment sales made on the same basis as sales to unaffiliated customers.

Operating profit of reportable segments is net sales less operating expenses. In computing operating profit, none of the following items has been included: interest income and expense; general corporate income and expenses; equity in net earnings (losses) of unconsolidated affiliates; and income taxes.

	Year ended May 31		
	1984	1983	1982
		(In millions)	
Net sales:			
Consumer Foods	**$1,793.9**	$1,652.1	$1,635.7
Restaurants	**1,768.7**	1,494.6	1,279.3
Agri-Products	**694.8**	627.5	568.6
Less Agri-Products intersegment sales	**(85.1)**	(88.3)	(98.5)
Total	**4,172.3**	3,685.9	3,385.1
Operating profit:			
Consumer Foods	**146.8**	139.4	134.8
Restaurants	**187.4**	135.3	116.3
Agri-Products	**34.5**	16.4	28.6
Total	**368.7**	291.1	279.7
General corporate expense, net	**(20.8)**	(21.5)	(12.4)
Interest expense, net	**(44.2)**	(39.4)	(39.3)
Earnings before taxes on income	**303.7**	230.2	228.0
Identifiable assets:			
Consumer Foods	**836.3**	725.4	747.9
Restaurants	**1,191.2**	1,025.7	993.3
Agri-Products	**498.2**	486.1	536.6
Corporate	**82.6**	129.4	150.5
Total	**2,608.3**	2,366.6	2,428.3
Capital expenditures:			
Consumer Foods	**59.4**	48.7	50.0
Restaurants	**197.4**	164.0	126.8
Agri-Products	**13.8**	20.9	15.8
Corporate	**11.8**	10.3	15.9
Total	**282.4**	243.9	208.5
Depreciation expense:			
Consumer Foods	**36.1**	33.0	30.3
Restaurants	**59.5**	54.7	48.6
Agri-Products	**14.2**	13.6	11.5
Corporate	**4.8**	4.2	2.4
Total	**114.6**	105.5	92.8
Foreign operations included in the above categories are as follows:			
Net sales	**355.5**	360.1	357.9
Operating profit	**16.2**	18.0	22.8
Identifiable assets	**241.8**	212.8	241.8
Capital expenditures	**20.4**	16.3	22.6
Depreciation expense	**9.7**	10.3	8.8

See footnotes to Summary by Quarter on the following page.

Summary by Quarter

	Net sales	Gross margin	Earnings before taxes on income	Net earnings	Per share* Net earnings	Per share* Cash dividends	Market price High	Market price Low	Market price Close
	(In millions)								
Fiscal 1984:									
First quarter	$ 929.4	$ 263.5	$ 62.7	$ 34.8	$ .80	$ .31	$32	$27¾	$31¾
Second quarter(a)	1,124.5	348.7	93.8	52.1	1.20	.35	38	31⅞	37¾
Third quarter	1,035.3	298.5	66.2	36.2	.83	.35	39	34¾	35⅝
Fourth quarter(b)	1,083.1	309.1	81.0	46.7	1.08	.35	41½	33	37⅞
Annual	$4,172.3	$1,219.8	$303.7	$169.8	$3.91	$1.36			
Fiscal 1983:									
First quarter	$ 806.0	$ 221.6	$ 47.3	$ 25.6	$ .59	$ .28	$23⅛	$18½	$21⅝
Second quarter(c)	985.7	307.0	58.5	30.7	.71	.31	25⅞	20¼	25
Third quarter	903.9	272.0	54.0	29.1	.67	.31	27½	23⅜	24¼
Fourth quarter(d,g)	990.3	295.8	70.4	53.5	1.23	.31	30⅝	24¼	28⅝
Annual	$3,685.9	$1,096.4	$230.2	$138.9	$3.20	$1.21			
Fiscal 1982:									
First quarter(e)	$ 741.5	$ 198.0	$ 42.7	$ 25.0	$ .58	$ .25	$21½	$17½	$18¼
Second quarter	916.8	292.4	76.6	45.0	1.04	.28	20¼	17½	18
Third quarter	823.1	241.0	45.4	26.9	.62	.28	20½	17¾	20½
Fourth quarter(f)	903.7	264.0	63.3	39.4	.90	.28	23⅜	20¼	22¼
Annual	$3,385.1	$ 995.4	$228.0	$136.3	$3.14	$1.09			

*Per share amounts have been restated to reflect a two-for-one split in November 1983.

Earnings before taxes on income include:

(a) $5.4 million (General corporate expense, net) gain from sale of an investment in Stokely-VanCamp common stock [$2.7 million net earnings—6¢ per share].

(b) $6.5 million (General corporate expense, net) gain relating to an agreement to exchange cash and common stock for certain long-term debt [$6.5 million net earnings—15¢ per share].

(c) $11.9 million (Restaurants) provision for writedown of Burger King's assets [$8.2 million net earnings—19¢ per share].

(d) $4.1 million (Restaurants) gain on sale of Burger King's office building [$4.1 million net earnings—9¢ per share].

(e) $6.0 million (Consumer Foods) gain from sale of Wilton Enterprises, a cake decorating supply division [$3.7 million net earnings—9¢ per share].

(f) $6.2 million ($4.3 million Consumer Foods and $1.9 million General corporate expense, net) gain from settlement of claims against corrugated container manufacturers [$3.2 million net earnings—7¢ per share].
$3.4 million (Consumer Foods) gain from the sale of Wheat Nuts product line [$2.1 million net earnings—5¢ per share].
$1.1 million (General corporate expense, net) income from foreign currency accounting change applicable to the first nine months of the fiscal year [$.8 million net earnings—2¢ per share].

Net earnings also include:

(g) A tax reduction of $12.0 million [28¢ per share] related to permanent tax deferral of earnings from certain subsidiaries, of which approximately $8.2 million [19¢ per share] was applicable to the first nine months of the fiscal year.

Summary of Significant Accounting Policies

Consolidation
The consolidated financial statements include the accounts of the parent company and all of its majority-owned domestic and foreign subsidiaries after elimination of intercompany balances and transactions. The fiscal year of foreign subsidiaries generally ends April 30 to facilitate timely reporting

Sales
Trading margins from merchandising grain, feed ingredients and export flour, rather than gross sales, are included in net sales

Pensions
The company and its subsidiaries have retirement plans covering substantially all salaried and full-time hourly employees. Costs and expenses include provisions for retirement benefits, interest on unfunded prior service costs and, on certain plans, amortization of prior service costs over periods of up to 30 years from the effective dates of the plans as amended. The company funds accrued pension costs.

Taxes on income
Investment tax credits are reflected as reductions in federal income taxes in the year eligible purchases are placed in service. Federal income taxes are provided on unremitted earnings of subsidiaries which are not reinvested indefinitely.

Earnings per share
Net earnings per share is computed using the weighted average number of common shares, including common share equivalents of stock options, outstanding during each year. Net earnings per share assuming full dilution would be substantially the same. Per share data and shares outstanding have been adjusted to reflect a two-for-one stock split, effected by means of a 100% stock dividend, in November 1983.

Foreign exchange
The company follows Statement of Financial Accounting Standards No. 52 in calculating and recording foreign currency translation.

With the exception of Mexico, all foreign currency balance sheets (local currencies have been determined to be functional currencies) are translated at the end-of-period exchange rates. The resulting translation gains or losses are recorded in the "Accumulated Foreign Currency Translation" caption within stockholders' equity. A Mexican affiliate's translation adjustments are recognized immediately in earnings.

All foreign currency earnings statements are translated at the average monthly exchange rate for each period. Net foreign currency transaction losses are not material.

Inventories
Grain inventories are stated on the basis of market prices at May 31, including adjustment to market of open contracts for purchases and sales. Other inventories are stated at cost (first-in, first-out) or market, whichever is lower

Property, plant and equipment
Owned property, plant and equipment is stated at cost. Depreciation is computed on the straight-line method for financial statement purposes and on accelerated methods for tax purposes. Estimated useful lives are: buildings and improvements, 3 to 40 years; machinery and equipment, 3 to 30 years.

Assets under capital leases are capitalized at the present value of future minimum lease payments and are depreciated using the straight-line method over the related lease terms as follows: buildings, 15 to 30 years; equipment, 2 to 15 years.

Intangibles
Intangible assets consist of goodwill, reacquired franchise rights, trademarks and patents and are carried at purchased cost less accumulated amortization. Goodwill represents the unidentified excess of cost over the net assets of businesses purchased. Costs are amortized on the straight-line method over the estimated useful lives or periods benefited (not in excess of 40 years).

Consolidated Statements of Earnings

	Year ended May 31		
	1984	1983	1982
	(In millions except per share amounts)		
Net sales	**$4,172.3**	$3,685.9	$3,385.1
Costs and expenses:			
Cost of sales	**2,952.5**	2,589.5	2,389.7
Selling, general and administrative expenses	**871.9**	826.8	728.1
Interest expense, net (Note 7)	**44.2**	39.4	39.3
	3,868.6	3,455.7	3,157.1
Earnings before taxes on income	**303.7**	230.2	228.0
Taxes on income (Note 10)	**133.9**	91.3	91.7
Net earnings	**$ 169.8**	$ 138.9	$ 136.3
Average number of shares outstanding	**43.5**	43.5	43.3
Net earnings per share	**$ 3.91**	$ 3.20	$ 3.14

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Accountants' Report

Minneapolis, Minnesota
June 26, 1984

Stockholders and
Board of Directors
The Pillsbury Company

We have examined the consolidated balance sheets of The Pillsbury Company and subsidiaries as of May 31, 1984 and 1983, and the related statements of earnings, stockholders' equity and changes in financial position for each of the three years in the period ended May 31, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Pillsbury Company and subsidiaries at May 31, 1984 and 1983, and the results of their operations and the changes in their financial position for each of the three years in the period ended May 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

The Pillsbury Company and Subsidiaries
Consolidated Balance Sheets

	May 31 1984	May 31 1983
	(In millions)	
Assets		
Current assets:		
Cash and equivalents	**$ 142.5**	$ 129.6
Receivables, less allowance for doubtful accounts of $ 11.5 million and $12.9 million, respectively	**355.8**	350.6
Inventories:		
Grain	**75.5**	52.9
Finished products	**214.1**	204.1
Raw materials, containers and supplies	**150.6**	133.7
	440.2	390.7
Advances on purchases	**107.7**	128.4
Prepaid expenses	**25.6**	22.3
Total current assets	**1,071.8**	1,021.6
Property, plant and equipment (Notes 4, 6 and 8):		
Land and improvements	**199.2**	179.3
Buildings and improvements	**885.1**	788.2
Machinery and equipment	**692.5**	600.3
	1,776.8	1,567.8
Less accumulated depreciation	**583.8**	514.6
	1,193.0	1,053.2
Net investment in direct financing leases (Note 9)	**184.0**	178.7
Intangibles	**83.2**	21.6
Investments and other assets	**76.3**	91.5
	$2,608.3	$2,366.6

	May 31	
	1984	1983
	(In millions)	
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable (Note 5)	**$ 17.3**	$ 10.5
Current portion of long-term debt (Note 6)	**94.3**	32.8
Trade accounts payable	**369.2**	279.6
Advances on sales	**136.0**	136.7
Employee compensation	**83.8**	72.4
Taxes on income	**16.5**	20.8
Other liabilities	**169.3**	152.1
Total current liabilities	**886.4**	704.9
Long-term debt, noncurrent portion (Notes 6, 7 and 8)	**503.1**	572.4
Deferred taxes on income	**149.3**	108.5
Other deferrals	**23.3**	24.4
Stockholders' equity (Notes 6 and 11):		
Preferred stock, without par value, authorized 500,000 shares, no shares issued		
Common stock, without par value, authorized 80,000,000 shares, issued 43,516,019 shares and 43,462,156 shares, respectively	**306.2**	284.1
Common stock in treasury at cost, 322,785 shares and 180,318 shares, respectively	**(11.7)**	(4.6)
Accumulated earnings retained and used in the business	**792.4**	704.9
Accumulated foreign currency translation	**(40.7)**	(28.0)
Total stockholders' equity	**1,046.2**	956.4
	$2,608.3	$2,366.6

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements

The Pillsbury Company and Subsidiaries

Consolidated Statements of Changes in Financial Position

	Year ended May 31 1984	1983	1982
		(In millions)	
Funds from operations:			
Net earnings	**$169.8**	$138.9	$136.3
Charges to income not requiring working capital:			
Depreciation	**114.6**	105.5	92.8
Amortization of intangibles	**6.2**	3.3	2.9
Deferred taxes on income	**21.9**	(4.3)	15.6
	312.5	243.4	247.6
Funds from (used for) changes in working capital:			
(Increase) decrease in receivables	**(5.2)**	22.9	(30.2)
(Increase) decrease in inventories	**(49.5)**	(1.0)	28.4
(Increase) decrease in other current assets	**17.4**	39.5	(56.8)
Increase (decrease) in trade accounts payable	**89.6**	(18.5)	.4
Increase (decrease) in advances on sales	**(.7)**	(51.3)	74.2
Increase (decrease) in taxes on income	**(4.3)**	(30.6)	(.7)
Increase (decrease) in other current liabilities	**28.6**	16.5	33.2
	75.9	(22.5)	48.5
Funds from conversion of noncurrent assets:			
Disposals of property, plant and equipment	**30.9**	66.5	41.5
Proceeds from sale of notes with recourse	**33.7**		
Proceeds from investments and other assets	**22.2**	25.4	10.3
Other, net	**7.2**	16.3	17.6
	94.0	108.2	69.4
Total funds generated internally	**482.4**	329.1	365.5
Utilization of funds for investment activities:			
Capital expenditures	**(282.4)**	(243.9)	(208.5)
Additions to intangibles	**(7.5)**	(3.1)	(7.8)
Additions to investments and other assets	**(43.2)**	(32.9)	(47.0)
Noncurrent assets of acquired companies:			
Property, plant and equipment	**(23.9)**		(22.5)
Intangibles	**(61.0)**		
	(418.0)	(279.9)	(285.8)
Net funds generated before financing activities	**64.4**	49.2	79.7
Funds from (used for) financing activities:			
Issuance of long-term debt	**54.2**	30.2	35.2
Long-term debt of acquired companies	**3.6**		2.4
Retirements of long-term debt	**(65.1)**	(73.7)	(47.7)
Increase (decrease) in notes payable	**6.8**	(9.6)	(2.4)
Investment in tax lease		(24.7)	
Income tax benefits from tax lease	**19.0**	33.6	
Issuance (purchase) of common stock, net	**(11.1)**	(2.5)	64.5
Cash dividends	**(58.9)**	(52.5)	(47.2)
	(51.5)	(99.2)	4.8
Increase (decrease) in cash and equivalents	**$ 12.9**	$(50.0)	$ 84.5

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity

	Shares of common stock outstanding	Common stock	Treasury stock	Accumulated earnings	Accumulated foreign currency translation
			(In millions)		
Balances at May 31, 1981	20.1	$217.5		$529.7	
Beginning foreign currency translation					$ (3.9)
Net earnings				136.3	
Change in foreign currency translation					(6.9)
Cash dividends				(47.2)	
Stock issued for:					
Purchased company	.1	1.8			
Conversion of subordinated debentures		2.1			
Stock option plans		.2			
Public offering	1.5	60.4			
Balances at May 31, 1982	21.7	282.0		618.8	(10.8)
Net earnings				138.9	
Change in foreign currency translation					(17.2)
Cash dividends				(52.5)	
Stock issued for:					
Conversion of subordinated debentures		1.3			
Stock option and performance unit plans		.8	$ 1.5	(.3)	
Purchase of treasury stock	(.1)		(6.1)		
Balances at May 31, 1983	21.6	284.1	(4.6)	704.9	(28.0)
Stock split effected by means of a 100% stock dividend	21.7	21.7		(21.7)	
Net earnings				169.8	
Change in foreign currency translation					(12.7)
Cash dividends				(58.9)	
Stock issued for:					
Conversion of subordinated debentures		.4			
Stock option and performance unit plans	.5		12.6	(1.7)	
Purchase of treasury stock	(.6)		(19.7)		
Balances at May 31, 1984	43.2	$306.2	$(11.7)	$792.4	$(40.7)

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

1. Acquisitions and dispositions:
Effective July 1, 1983, the company purchased the net assets (including cash and equivalents of $14 million) of Häagen-Dazs companies, a manufacturer, distributor and franchisor of super premium quality ice cream, for $76 million (including expenses of approximately $1 million) in cash and notes.

The acquisition was accounted for as a purchase. Accordingly, the purchase price was allocated to the assets and liabilities acquired based upon their estimated fair market values at the date of acquisition, including $53 million of intangible assets. The results of operations of Häagen-Dazs (included since the date of acquisition) were not material to the fiscal 1984 consolidated statement of earnings.

During April, 1983, the company sold Poppin Fresh Pies, Inc., a restaurant subsidiary. The sale had no material effect on reported net earnings or financial position.

In addition, during the three year period ended May 31, 1984, the company acquired or disposed of other businesses, none of which were material.

2. Financial statement presentation:
Certain amounts have been reclassified to conform with the 1984 presentation. These reclassifications had no effect on previously reported net earnings.

3. Foreign operations:
The consolidated financial statements include amounts for foreign subsidiaries (substantially all are wholly owned) as of and for the years ended May 31, as follows:

	1984	1983	1982
		(In millions)	
Net sales	**$355.5**	$360.1	$357.9
Net earnings	**3.9**	8.2	10.4
Total assets	**251.1**	220.5	250.4
Net tangible assets	**103.0**	114.0	133.3
Excess of investments over equity in net tangible assets	**7.8**	6.0	8.0

4. Property, plant and equipment:
Property, plant and equipment includes capital leases, as well as assets leased to restaurant franchisees under operating leases, at May 31, as follows:

	Capital leases		Leased to restaurant franchisees	
	1984	1983	**1984**	1983
	(In millions)			
Land and improvements			**$ 82.5**	$ 76.0
Buildings and improvements	**$ 44.9**	$ 46.2	**47.0**	39.8
Machinery and equipment	**18.1**	16.2	**5.1**	4.8
	63.0	62.4	**134.6**	120.6
Less accumulated depreciation	**(30.2)**	(26.4)	**(25.0)**	(18.9)
	$ 32.8	$ 36.0	**$109.6**	$101.7
Depreciation expense	**$ 5.0**	$ 5.1		

5. Financing commitments:
Notes payable at year-end consist primarily of foreign subsidiaries' bank notes. During each year, notes payable also include borrowings by the company through issuance of commercial paper.

Selected information on notes payable is as follows:

	1984	1983	1982
	(Dollars in millions)		
Balance at May 31:			
Amount	**$ 17.3**	$ 10.5	$ 20.1
Interest rate	**9.6%**	11.2%	13.1%
Largest month-end balance	**$223.6**	$180.0	$196.5
Average month-end balance	**138.0**	81.0	81.0
Average interest rate (a)	**9.5%**	10.9%	15.1%

(a) Computed on the weighted average of outstanding loan balances throughout the year.

Bank lines of credit may be used for direct borrowing or to support commercial paper, are reviewed on an annual basis, and may be withdrawn at the banks' option. Interest rates are at prime. At May 31, 1984, the company has bank lines of credit of $97.9 million against which $17.3 million of foreign subsidiaries' borrowings were outstanding. The company either pays a commitment fee of .25% or maintains an earnings equivalent as compensating balances. Compensating balances are not legally restricted.

In addition, at May 31, 1984, the company has a five-year revolving credit agreement with several banks for $250 million. No borrowings were outstanding. Interest on borrowings is at the prevailing prime rate or other similar rates. The company pays a commitment fee of .25% on the unused portion.

6. Long-term debt:

	May 31 1984	May 31 1983
	(In millions)	
5¾% sinking fund debentures due 1987, annual funding $.4 million, less $.6 million held for cancellation	**$ 2.3**	$ 2.3
5½% notes due $.5 million annually to 1986	**.9**	3.1
8¾% sinking fund debentures due 1996, annual funding $1.3 million, less $3.8 million held for cancellation	**11.2**	12.9
8⅜% notes due 1999	**36.7**	50.0
14% notes due 1991	**50.0**	50.0
4¼% convertible subordinated debentures due 1993	**1.6**	2.9
10¾% notes		20.0
8⅛% notes due 1985	**.5**	5.0
10⅜% notes		7.5
Zero coupon notes, $30.5 million due in 1985 (yield 10.25%) and $30.5 million in 2015 (yield 12.5%)	**30.7**	
Restaurant subsidiaries installment notes at 5¾% to 16%:		
Unsecured	**279.3**	284.6
Secured (real estate of $105.4 million pledged as collateral)	**68.0**	76.8
Other notes at 5¼% to 18½% (real estate of $17.5 million pledged as collateral)	**58.9**	27.8
Capital lease obligations (Note 8)	**57.3**	62.3
	597.4	605.2
Less current portion	**(94.3)**	(32.8)
	$503.1	$572.4

In May 1984, investment bankers exercised their option, pursuant to an Exchange Agreement dated December 29, 1983, as amended May 1, 1984, to exchange the entire $43.8 million principal amount then outstanding of the company's 8⅜% notes due 1999 for $36.7 million plus accrued interest and expenses of the exchange. Upon settlement subsequent to May 31, 1984, the company expects to pay one-half in cash (included in current portion of long-term debt at May 31, 1984) and one-half in common stock, with the number of shares issued based upon the prevailing per share market value at the date of exchange. Also in fiscal 1984, certain long-term debt was exchanged for zero coupon notes.

Debt agreements contain certain restrictions relating to the payment of dividends and other distributions. Under the most restrictive of these provisions, approximately $134 million of accumulated earnings at May 31, 1984 are not restricted.

The 4¼% convertible subordinated debentures are convertible into one share of the company's common stock for each $24.90 principal amount of debentures. At May 31, 1984, approximately 64,000 shares of common stock are reserved for issuance upon conversion of the debentures.

Maturities of long-term debt, excluding capital lease obligations, for the five fiscal years subsequent to May 31, 1984 are:

1985	$88.6 million
1986	36.4 million
1987	45.8 million
1988	40.6 million
1989	33.0 million

7. Interest expense, net:

	Year ended May 31 1984	1983	1982
	(In millions)		
Long-term debt	**$ 63.0**	$ 63.4	$ 62.5
Capital lease obligations	**6.2**	6.7	7.1
Short-term debt	**16.6**	12.1	15.9
Amortization of unearned income, direct financing leases	**(20.9)**	(19.8)	(20.0)
Interest income	**(18.4)**	(21.1)	(23.5)
Capitalized interest	**(2.3)**	(1.9)	(2.7)
	$ 44.2	$ 39.4	$ 39.3

8. Commitments as lessee:

Capital leases cover restaurant buildings and transportation, computer and manufacturing equipment.

Operating leases cover land; manufacturing, warehousing and administrative facilities; grain handling and storage facilities; and manufacturing and transportation equipment.

Minimum future obligations on leases with an initial term greater than one year for the fiscal years ending May 31	Capital leases	Operating leases (a)
	(In millions)	
1985	$ 11.4	$ 47.4
1986	10.5	42.6
1987	9.4	39.9
1988	8.2	37.3
1989	7.5	36.3
Later	53.0	388.5
Total minimum obligations (b)	100.0	592.0
Executory costs	(1.0)	(7.1)
Net minimum obligations	99.0	$584.9
Amount representing interest	(41.7)	
Present value of net minimum obligations	$ 57.3	
Current portion	$ 5.7	

(a) Does not include obligations under term freight agreements for 2,124 barge loads in fiscal 1985, decreasing to 1,500 in fiscal 1989 and ending in fiscal 1991.
(b) Minimum lease obligations have not been reduced by mininum sublease rentals. In addition to minimum obligations, contingent rentals may be paid under certain restaurant and grain facility leases on the basis of percentage of sales and volume, respectively.

Rental expense	Year ended May 31 1984	1983	1982
	(In millions)		
Minimum rental expense(a)	**$82.9**	$88.6	$82.6
Contingent rental expense	**8.1**	6.0	5.5
Transportation equipment sublease income	**(7.9)**	(7.5)	(5.9)
	$83.1	$87.1	$82.2

(a) Includes rentals under leases with terms of one year or less. Payments under term freight agreements of $26.1 million, $21.0 million and $28.4 million for fiscal years 1984, 1983 and 1982, respectively, are not included.

9. Investments as lessor:

Restaurant subsidiaries lease restaurant buildings and land to franchisees. The building portions of the leases are direct financing leases while the land portions are operating leases. Substantially all leases are for 15 to 20 years, provide for minimum and contingent rentals, and require the franchisee to pay executory costs.

Minimum future lease payments to be received during the fiscal years ending May 31	Direct financing leases	Operating leases
	(In millions)	
1985	$ 26.7	$ 22.4
1986	26.5	22.0
1987	26.8	21.5
1988	26.9	21.4
1989	27.3	21.5
Later	280.5	232.7
	$414.7	$341.5

Net investment in direct financing leases at May 31	1984	1983
	(In millions)	
Minimum lease payments receivable	**$414.7**	$403.3
Allowance for uncollectables	**(3.9)**	(3.7)
Estimated unguaranteed residual value	**4.0**	4.3
Unearned amount representing interest	**(226.1)**	(219.9)
Net investment	**188.7**	184.0
Current portion included in receivables	**(4.7)**	(5.3)
Net investment in direct financing leases	**$184.0**	$178.7

Rental income	Year ended May 31 1984	1983	1982
	(In millions)		
Minimum rental income	**$23.9**	$21.5	$19.3
Contingent rental income (a)	**27.9**	20.2	15.1
	$51.8	$41.7	$34.4

(a) Includes contingent rentals on both owned and leased property under direct financing and operating leases.

10. Taxes on income:

	Year ended May 31		
	1984	1983	1982
	(In millions)		
Earnings before taxes on income consist of:			
Domestic	**$288.1**	$213.1	$207.0
Foreign	**15.6**	17.1	21.0
	$303.7	$230.2	$228.0
Income tax expense consists of:			
Current:			
Federal	**$ 97.4**	$ 82.6	$ 62.2
Investment tax credit	**(11.8)**	(9.3)	(9.8)
	85.6	73.3	52.4
State	**15.2**	14.2	8.1
Foreign	**9.7**	8.3	10.2
	110.5	95.8	70.7
Deferred:			
Federal	**19.4**	(4.5)	17.5
State	**2.0**	(.6)	2.7
Foreign	**2.0**	.6	.8
	23.4	(4.5)	21.0
	$133.9	$ 91.3	$ 91.7

In fiscal 1983, the company entered into a tax benefit lease as a purchaser of equipment. The transaction does not affect current or deferred income tax expense. The income tax benefits related to this purchase decreased the current liability for taxes on income by $17.5 and $33.6 millon and increased the deferred liability for taxes on income by $19.0 and $8.9 millon in fiscal 1984 and 1983, respectively.

Reconciliation between the expected federal tax rate and the actual effective rate is as follows:

Expected federal tax rate	**46.0**%	46.0%	46.0%
State income taxes, net of federal income tax benefit	**3.1**	3.2	2.6
Investment tax credit	**(3.9)**	(4.0)	(4.3)
Reversal of provision on unremitted earnings of subsidiaries deemed to be permanently reinvested	**(1.6)**	(5.7)	(3.8)
Other, net	**.5**	.2	(.3)
	44.1%	39.7%	40.2%

Deferred taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. Tax effects of those differences are as follows:

Earnings of Domestic International Sales Corporations (a)	**$(2.5)**	$(17.8)	$ 8.8
Unremitted earnings of consolidated foreign subsidiaries (a)		(2.0)	(4.0)
Excess of tax over book depreciation	**15.4**	23.3	13.9
Change in reserves not currently deductible for taxes	**3.4**	(7.7)	(6.1)
Installment sales	**1.1**	(.4)	4.1
Other, net	**6.0**	.1	4.3
	$23.4	$ (4.5)	$21.0

(a) At May 31, 1984, Federal taxes are not provided on approximately $116 million of unremitted earnings of foreign subsidiaries and Domestic International Sales Corporations which management intends to reinvest indefinitely.

11. Stock options:
Stock options may currently be granted under the company's 1982 Stock Option Plan. Under this plan, options to purchase in the aggregate 1,500,000 shares of the company's common stock may be granted to officers and key employees, except for those persons holding awards under the Performance Unit Plans (Note 12). Options outstanding under this and predecessor option plans are either nonqualified or incentive stock options granted at 100% of the fair market value at date of grant and expire 10 years thereafter. Nonqualified stock options become exercisable in cumulative annual installments of 25% beginning one year after date of grant and incentive stock options become fully exercisable one year after date of grant.

Under the option plans, an amount equal to the option price is credited to common stock at the time of exercise and nothing is charged to earnings. Shares and prices have been adjusted to reflect the two-for-one stock split in November 1983.

	Option shares		
	Outstanding	Exercisable	Price Range
Balances at May 31, 1981	716,120	305,660	$ 8-23
Granted	332,400		18-21
Becoming exercisable		146,830	10-23
Exercised	(7,376)	(7,376)	11-18
Cancelled	(102,252)	(45,442)	
Balances at May 31, 1982	938,892	399,672	8-23
Granted	275,400		21-25
Becoming exercisable		187,320	16-23
Exercised	(70,486)	(70,486)	11-23
Cancelled	(149,888)	(80,788)	
Balances at May 31, 1983	993,918	435,718	8-25
Granted	265,900		29-37
Becoming exercisable		414,950	16-25
Exercised	(424,311)	(424,311)	9-22
Cancelled	(53,750)	(32,700)	
Balances at May 31, 1984	781,757	393,657	8-37

An additional 1,246,100 shares are available for grant through fiscal 1988. Shares of common stock reserved for options at May 31, 1984 are 2,027,857. Option shares outstanding at May 31, 1984 were granted in fiscal 1980 and prior years (192,227); 1981 (500); 1982 (195,730); 1983 (139,400) and 1984 (253,900). Unexercisable option shares outstanding at May 31, 1984 become exercisable in fiscal 1985 (321,150); 1986 (66,750) and 1987 (200).

12. Compensation plans:
Certain employees of the company participate in compensation programs which include a base salary plus incentive payments. They are in managerial, sales and other areas in which it is deemed appropriate to reward employees on the basis of individual and/or group performance. Incentive payments are calculated based upon the level of operating earnings, as defined by the executive compensation committee of the board of directors.

Additionally, under the 1981 Performance Unit Plan, officers and key employees may be awarded performance units valued at the fair market value of an equivalent number of shares of the company's common stock at time of award. The value at time of payment cannot be greater than 200% of the award value. The company's cumulative annual growth in earnings per share over the four-year period following the award is the basis for payment. No payments may be made if annual growth is less than 6%. Awards of 281,647 performance units, including those awarded under a predecessor plan, are outstanding at May 31, 1984 at a weighted award value of $20.86 each. An additional 1,018,000 units are available for grant through fiscal 1988. Performance units have been adjusted to reflect the two-for-one stock split in November 1983.

Eligible employees may elect, under the company's Stock Purchase and Investment Plan or Deferred Incentive Plan, to make deposits of up to 10% of the employees' profit sharing earnings with the company matching 50% of the deposits up to the first 4% of profit sharing earnings.

Expenses incurred under the above compensation plans (excluding base salary) were approximately $27.7 million, $19.2 million and $16.1 million in fiscal 1984, 1983 and 1982, respectively.

13. Retirement plans:
Noncontributory retirement plans are provided for both salaried and hourly employees of the company and certain subsidiaries. Benefits for salaried employees are based on final average compensation, including certain incentive compensation, and years of credited service. The hourly plans include various monthly amounts for each year of credited service. All retirement plans conform with the provisions of the Employee Retirement Income Security Act of 1974.

Expenses incurred for retirement plans were $13.2 million, $14.1 million and $17.1 million in fiscal 1984, 1983 and 1982, respectively.

The accumulated plan benefits and net assets for all retirement plans are:

	May 31	
	1984	1983
	(In millions)	
Actuarial present value of accumulated plan benefits:		
Vested	**$160.3**	$140.0
Nonvested	**23.2**	21.3
	$183.5	$161.3
Net assets available for benefits	**$251.1**	$256.4

The rate of return used in determining the actuarial present value of accumulated plan benefits was 8.0%, except for those benefits at May 31, 1984 and 1983 which are matched to a dedicated bond portfolio yielding 15.25%.

14. Other commitments and contingent liabilities:
In February 1984, the United States District Court for the Northern District of Illinois entered judgment against the company and Wilton Enterprises, a former division of the company engaged in the cake decorating supplies business, in the amount of $6.3 million in connection with antitrust claims filed in 1975 by Parrish's Inc., a competitor. The judgment consists of damages of $4.5 million (three times the actual damages awarded by a jury verdict in May 1981), attorneys fees, costs and interest through June 1983. The company continues to believe the claims are without merit and will appeal to the Seventh Circuit Court of Appeals.

The company and certain of its subsidiaries are parties to additional legal proceedings and guarantees of debt arising in the conduct of business.

In the opinion of management, disposition of these matters will not materially affect the company's consolidated financial position.

15. Industry segment data:
A summary by industry segment is included on page 32.

16. Interim results of operations (unaudited)**:**
A summary by quarter is included on page 33.

17. Information on effects of changing prices and inflation (unaudited):

Consolidated statement of earnings adjusted for changing prices, year ended May 31, 1984	As reported in the primary statements	As adjusted for general inflation (constant dollar)	As adjusted for changes in specific prices (current cost)
	(In millions except per share amounts)		
Net sales	$4,172.3	$4,172.3	$4,172.3
Cost of sales (excluding depreciation expense)	2,852.4	2,866.6	2,877.1
Depreciation expense	114.6	148.9	142.5
Selling, general and administrative expenses (excluding depreciation expense)	857.4	857.4	857.4
Interest expense, net	44.2	44.2	44.2
	3,868.6	3,917.1	3,921.2
Earnings before taxes on income	303.7	255.2	251.1
Taxes on income	133.9	133.9	133.9
Net earnings	$ 169.8	$ 121.3	$ 117.2
Net earnings per share	$ 3.91	$ 2.79	$ 2.70
Gain from decline in purchasing power of net amounts owed		28.3	28.3
Increase in prices of inventory and property, plant and equipment, net held during the year		79.3	72.5
Foreign currency translation adjustment loss			(8.9)
Net assets at year-end	1,046.2	1,390.1	1,343.4

At May 31, 1984, current cost of inventory is $444.3 million and property, plant and equipment, net is $1,471.6 million.

Five-year comparison of selected financial data adjusted for general inflation (average fiscal 1984 dollars)	**1984**	1983	1982	1981	1980
	Year ended May 31 (In millions except per share amounts)				
Net sales	**$4,172.3**	$3,817.8	$3,670.1	$3,896.6	$4,006.2
Historical cost information adjusted for general inflation:					
Net earnings	**121.3**	95.0	80.1	68.0	37.7
Net earnings per share	**2.79**	2.19	1.85	1.69	.94
Net assets at year-end	**1,390.1**	1,336.9	1,343.9	1,251.5	1,217.8
Historical cost information adjusted for changes in specific prices:					
Net earnings	**117.2**	92.1	88.1	56.1	64.6
Net earnings per share	**2.70**	2.12	2.04	1.39	1.61
Excess (deficit) of increase in general price level over increase in specific prices	**6.8**	(58.1)	46.1	30.4	66.2
Foreign currency translation adjustment loss	**(8.9)**	(12.4)	(5.0)		
Net assets at year-end	**1,343.4**	1,292.9	1,281.5	1,198.4	1,236.2
Gain from decline in purchasing power of net amounts owed	**28.3**	21.4	45.4	73.5	121.8
Cash dividends per share	**1.36**	1.25	1.18	1.14	1.10
Market price per share at year-end	**37⅛**	29¼	23½	23⅛	19¾
Average consumer price index	**303.9**	293.4	280.3	257.5	230.0

Historical cost financial statements may not adequately measure the effects of inflation.

The preceding information attempts to remeasure certain historical cost data under two different required methods—"general inflation", using the Consumer Price Index as a broad-based measure; and "changes in specific prices", using current cost indices as a specific price based measure. Both methods involve the use of assumptions and estimates, and therefore, should not be interpreted as highly reliable indicators of the effects of inflation.

Net earnings have been adjusted only for remeasured depreciation expense and cost of sales. No adjustments have been made to the provisions for income taxes, thus making the effective tax rates much higher than reported in the primary financial statements. If taxes on income were adjusted (using the primary statement effective tax rate of 44.1 percent), net earnings would increase $21.4 million (49 cents per share) under constant dollar remeasurement, and $23.2 million (53 cents per share) under current cost remeasurement.

The company believes that the specific price method results in a more appropriate matching of revenues and inflation-adjusted expenses than the general inflation method. Therefore, in the segment analysis we have shown only the effects of current cost remeasurement.

Approximately two-thirds of the adjustment to Consumer Foods' operating profit is due to higher cost of sales. Inventories turn over only about three times per year causing a delay in reflecting increasing costs.

Restaurants' adjustment to operating profit is due almost exclusively to higher depreciation expense, reflecting increasing costs of replacing their substantial investment in depreciable assets.

Agri-Products' inventory turns over rapidly and depreciation expense is relatively low, due to a high percentage of fully depreciated assets. Therefore, their primary statements more closely approximate current cost remeasurements.

Industry segment data adjusted for changing prices	Year ended May 31, 1984	
	As reported in the primary statements	As adjusted for changes in specific prices (current cost)
	(In millions)	
Operating profit:		
Consumer Foods	$ 146.8	$ 115.7
Restaurants	187.4	172.2
Agri-Products	34.5	28.6
Corporate	(20.8)	(21.2)
Total	347.9	295.3
Depreciation expense:		
Consumer Foods	36.1	45.3
Restaurants	59.5	74.1
Agri-Products	14.2	17.9
Corporate	4.8	5.2
Total	114.6	142.5
Identifiable assets:		
Consumer Foods	836.3	909.4
Restaurants	1,191.2	1,363.0
Agri-Products	498.2	534.3
Corporate	82.6	84.3
Total	2,608.3	2,891.0

Ten Year Summary

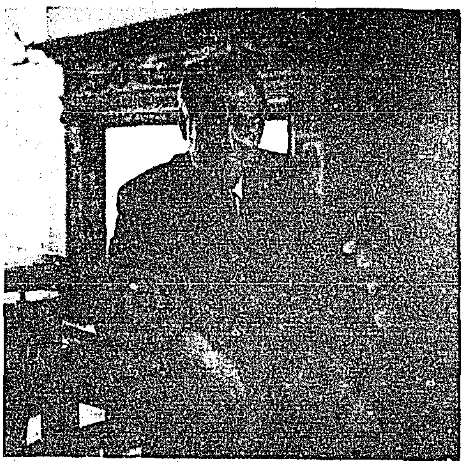
Per share data and shares outstanding have been restated to reflect a two-for-one stock split in November 1983.

Annual Growth Rate 10-Yr. 1974-1984	5-Yr. 1979-1984	1-Yr. 1983-1984		1984
			Operations:	
14%	14%	13%	Net sales	**$4,172.3**
17	14	32	Earnings from continuing businesses before taxes on income	**303.7**
18	15	22	Earnings from continuing businesses	**169.8**
17	15	22	Net earnings	**169.8**
4	4	—	Average common shares outstanding	**43.5**
			Per common share:	
14	11	22	Earnings from continuing businesses	**$ 3.91**
14	11	22	Net earnings	**3.91**
13	13	12	Cash dividends	**1.36**
16	16	9	Depreciation expense	**114.6**
18	15	16	Research and development expense	**34.7**
13	9	10	Advertising expense	**109.3**
			Changes in financial position:	
16	15	28	Funds provided from operations	**$ 312.5**
—	(19)	79	Issuance of long-term debt	**54.2**
9	4	16	Capital expenditures	**282.4**
20	17	12	Cash dividends	**58.9**
24	33	(12)	Retirements of long-term debt	**65.1**
			Financial position:	
11	3	5	Current assets	**$1,071.8**
13	7	26	Current liabilities	**886.4**
5	(8)	(41)	Working capital	**185.4**
15	10	13	Property, plant and equipment, net	**1,193.0**
9	—	(12)	Long-term debt	**503.1**
16	13	9	Stockholders' equity	**1,046.2**
14	8	4	Invested capital	**1,721.9**
13	8	10	Total assets	**2,608.3**
			Statistics and ratios:	
			Current ratio	**1.2**
			Pretax interest and rent coverage	**2.7**
			Pretax long-term interest coverage	**5.5**
			Gross margin to net sales	**29.2%**
			Pretax earnings from continuing businesses to net sales	**7.3%**
			Return on average equity	**17.0%**
			Return on average invested capital	**21.9%**
			Dividends to net earnings	**34.7%**
			Long-term debt to total capitalization	**29.2%**
			Equity per common share	**$ 24.22**
			Market price of common stock—high	**41½**
			—low	**27¾**
			Stockholders of record*	**20,800**
			Employees:	
			Restaurant subsidiaries	**61,400**
			Pillsbury and other domestic subsidiaries	**14,200**
			Foreign subsidiaries	**3,800**
			Total	**79,400**

*Does not reflect the large number of employees holding stock through the Stock Purchase and Investment Plan and the Deferred Incentive Plan.

Year ended May 31								
1983	1982	1981	1980	1979	1978	1977	1976	1975
(Amounts in millions except per share, stockholders and employees)								
$3,685.9	$3,385.1	$3,301.7	$3,032.0	$2,166.0	$1,704.9	$1,521.5	$1,466.1	$1,347.5
230.2	228.0	201.9	191.8	160.3	142.1	123.8	107.4	81.7
138.9	136.3	119.6	104.7	83.5	71.3	62.5	53.2	42.1
138.9	136.3	119.6	104.7	83.5	72.5	62.5	45.3	39.8
43.5	43.3	40.2	40.1	36.2	35.1	34.8	32.8	30.9
$ 3.20	$ 3.14	$ 2.98	$ 2.61	$ 2.31	$ 2.03	$ 1.80	$ 1.62	$ 1.36
3.20	3.14	2.98	2.61	2.31	2.07	1.80	1.38	1.29
1.21	1.09	.965	.835	.73	.625	.56	.488	.44
105.5	92.8	89.4	78.4	55.2	44.4	40.4	38.9	32.5
29.8	25.9	21.3	19.4	17.3	14.5	14.3	10.3	7.4
99.1	99.8	95.7	99.9	69.6	52.4	49.2	45.8	31.0
$ 243.4	$ 247.6	$ 226.8	$ 182.1	$ 152.5	$ 129.5	$ 114.2	$ 93.1	$ 85.1
30.2	35.2	98.3	79.3	154.8	63.3	63.8	42.7	38.7
243.9	208.5	226.5	254.1	230.2	134.1	120.9	83.8	100.6
52.5	47.2	38.7	33.5	26.4	21.4	18.7	13.4	10.6
73.7	47.7	37.9	28.7	15.8	30.9	27.4	32.1	9.9
$1,021.6	$1,133.0	$ 989.9	$ 938.8	$ 906.6	$ 680.6	$ 624.9	$ 506.7	$ 377.7
704.9	816.5	687.6	680.1	629.8	461.9	413.6	318.1	252.6
316.7	316.5	302.3	258.7	276.8	218.7	211.3	188.6	125.1
1,053.2	1,009.0	950.6	857.4	741.5	486.5	428.8	366.4	349.1
572.4	597.1	631.0	552.0	509.2	298.0	267.2	228.1	243.7
956.4	890.0	747.2	664.5	577.7	452.1	401.6	352.7	260.9
1,661.7	1,611.8	1,486.9	1,303.6	1,174.7	820.9	725.5	629.2	540.5
2,366.6	2,428.3	2,174.5	1,983.7	1,804.5	1,282.8	1,139.1	947.3	793.1
1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.6	1.5
2.3	2.3	2.2	2.3	3.0	3.6	3.7	3.1	2.8
4.4	4.4	4.7	5.1	5.6	6.3	6.5	5.5	5.0
29.7%	29.4%	27.7%	28.0%	29.0%	29.2%	29.2%	27.9%	23.6%
6.2%	6.7%	6.1%	6.3%	7.4%	8.3%	8.1%	7.3%	6.1%
15.0%	16.6%	16.9%	16.9%	16.2%	17.0%	16.6%	14.8%	16.1%
18.2%	19.0%	18.4%	19.3%	19.6%	22.2%	21.6%	19.4%	19.1%
37.8%	34.6%	32.4%	32.0%	31.6%	30.0%	29.9%	29.6%	26.7%
34.4%	37.0%	42.4%	42.3%	43.3%	36.3%	36.8%	36.3%	45.1%
$ 22.10	$ 20.51	$ 18.60	$ 16.58	$ 14.75	$ 12.92	$ 11.48	$ 10.25	$ 8.46
30⅝	23⅜	23	20⅝	23⅞	20⅝	22¼	21¾	15⅝
18½	17½	15⅝	13½	16	16¾	17¼	15½	7⅞
19,100	20,200	20,700	21,200	20,000	14,300	14,300	13,900	12,200
41,500	40,400	44,100	42,200	42,000	31,900	29,200	26,400	16,400
11,200	11,400	12,800	13,900	12,800	9,400	8,200	8,100	7,400
3,500	3,400	3,100	3,400	3,300	3,000	3,000	3,100	3,200
56,200	55,200	60,000	59,500	58,100	44,300	40,400	37,600	27,000

Board of Directors



W. Michael Blumenthal, *2, 4*
Chairman and Chief Executive Officer, Burroughs Corporation (computer systems), Detroit, Mi.

Donald F. Craib, Jr., *2, 4*
Chairman and Chief Executive Officer, Allstate Insurance Group, (property/casualty and life insurer), Northbrook, Ill.

Caro E. Luhrs, M.D., *3, 4, 6*
Physician and Consultant, Washington, D.C.

George S. Pillsbury, *1, 3, 4*
President, Sargent Management Company (investment advisors), Minneapolis, Mn.

Robert A. Schoellhorn, *2, 4, 5*
Chairman and Chief Executive Officer, Abbott Laboratories (health care products), Chicago, Ill.

George J. Sella, Jr., *2, 4, 5*
Chairman, President and Chief Executive Officer, American Cyanamid Company (agricultural, chemical, consumer and medical products), Wayne, N.J.

William H. Spoor, *1, 2*
Chairman and
Chief Executive Officer
(Photo, Page 2)

Winston R. Wallin, *1, 2*
Vice Chairman
(Photo, Page 2)

John M. Stafford, *1, 6*
President
(Photo, Page 2)

James W. McLamore, *2, 3, 4*
Chairman Emeritus, Burger King Corporation, Miami, Fla.

Willys H. Monroe, *1, 4, 5, 6*
President, Willys H Monroe, CMC, Inc. (management consulting) and President and Chairman of the Board of Trustees of George Williams College, Chicago, Ill.

John H. Perkins, *2, 3, 4, 5*
Consultant; Retired President, Continental Illinois Corporation and Continental Illinois National Bank and Trust Company, Chicago, Ill.

John C. Whitehead, *2, 4*
Senior Partner, Goldman, Sachs & Co. (investment banking), New York, N.Y.

Peter G. Wray, *3, 4*
Chairman, The Victorio Company (ranching, farming and related activities), Phoenix, Ariz.

Committees of the Board
1. Executive
2. Finance
*3. Audit**
*4. Nominating**
*5. Executive Compensation**
6. Public Responsibilities

**Composed entirely of non-employee Board members*

Officers

Corporate Officers

Executive Office

William H. Spoor†
Chairman of the Board
and Chief Executive Officer

Winston R. Wallin†
Vice Chairman

John M. Stafford†
President

Richard A. Coonrod
Executive Vice President
and President,
Agri-Products Group

Roger L. Headrick
Executive Vice President
and Chief Financial Officer

Edward C. Stringer
Executive Vice President,
General Counsel,
Chief Administrative Officer
and Secretary

John L. Morrison
Group Vice President,
International

Richard T. Crowder
Senior Vice President,
Strategic Planning and
Corporate Risk Officer

Herbert D. Ihle
Senior Vice President and
Controller

Jerry W. Levin
Senior Vice President,
Corporate Development
and Treasurer

J. Jeffrey Campbell
Vice President, Chairman and
Chief Executive Officer, Burger
King Corporation

Hal W. Smith
Vice President,
Chairman and Chief Executive
Officer, S&A Restaurant Corp

† Member, Board of Directors

Kent C. Larson
Vice President,
Group Vice President,
Dry Grocery Products

Thomas R. McBurney
Vice President,
Group Vice President, Frozen
and Refrigerated Products

James R. Behnke
Vice President, Technology

Walter R. Mulhall
Vice President,
Public Relations

W. Donald Norris
Vice President, Personnel and
Organization Planning

John E Bohan
Vice President,
Planning and Analysis and
Assistant Controller

Allan E. Fonfara
Vice President, Accounting and
Control and Assistant Controller

Ronald E. Lund
Vice President, Associate
General Counsel and Assistant
Secretary

L. Charles Bartz
Assistant Treasurer

Charles H. Gauck
Assistant Secretary

Thomas E. Murphy
Assistant Treasurer

Barbara E. Ordyniec
Assistant Secretary

Lynn M. Seifert
Assistant Treasurer

Staff Officers

Michael D. Ellwein
Vice President and Assistant
General Counsel

Jerry L. Ford
Vice President,
Administrative Services

John M. Hammitt
Vice President,
Information Management

Kenneth A. Johnson
Vice President and Tax Counsel

Walter E. Leach, Jr.
Vice President,
Investor Relations

Charles H. McGill
Vice President,
Consumer Foods Acquisitions

Gerald L. Olson
Vice President,
Government Relations

Dan C. Rengers
Vice President,
Industrial Relations

Terry T. Saario
Vice President,
Community Relations

Mahlon C. Schneider
Vice President and Assistant
General Counsel

Ralph O. Thrane
Vice President,
International Acquisitions

Robert G. Walker
Vice President, Engineering

Corporate Data

General Offices
Pillsbury Center
200 South Sixth Street
Minneapolis, Mn. 55402
Telephone (612) 330-4966
Cable address: PILLS MPLS.

Transfer Agent and Registrar
First National Bank
of Minneapolis
120 South Sixth Street
Minneapolis, Mn. 55480

Annual Meeting
The annual meeting will be held at the Guthrie Theater, 725 Vineland Place, Minneapolis, Mn., at 2 p.m. Central Daylight Time, Tuesday, September 11, 1984.

Stockholder Inquiries
Stockholders interested in the current progress of the Company are invited to telephone Investor Relations at (612) 330-5189.

Stock Listing
Pillsbury common stock is listed on the New York Stock Exchange, the Midwest Stock Exchange and the London Stock Exchange under the symbol PSY.

Dividend Reinvestment
The Automatic Dividend Reinvestment Plan permits stockholders to reinvest their dividends in Pillsbury common stock automatically, regularly and conveniently—without service charges or brokerage fees. In addition, participating stockholders may make limited periodic cash investments for the purchase of additional Pillsbury common stock on the same fee-free basis. The Plan is voluntary. Stockholders may join or withdraw at any time. Full details about the Plan are available by writing to First National Bank of Minneapolis, Attention: Dividend Reinvestment Department, P.O. Box A799, Minneapolis, Mn. 55480.

Availability of Form 10K
Stockholders may obtain, without charge and exclusive of exhibits, a copy of the 1984 Form 10K Annual Report, which is an annual filing with the Securities and Exchange Commission, by writing to Investor Relations, The Pillsbury Company, Pillsbury Center, 200 South Sixth Street, Minneapolis, Mn. 55402.