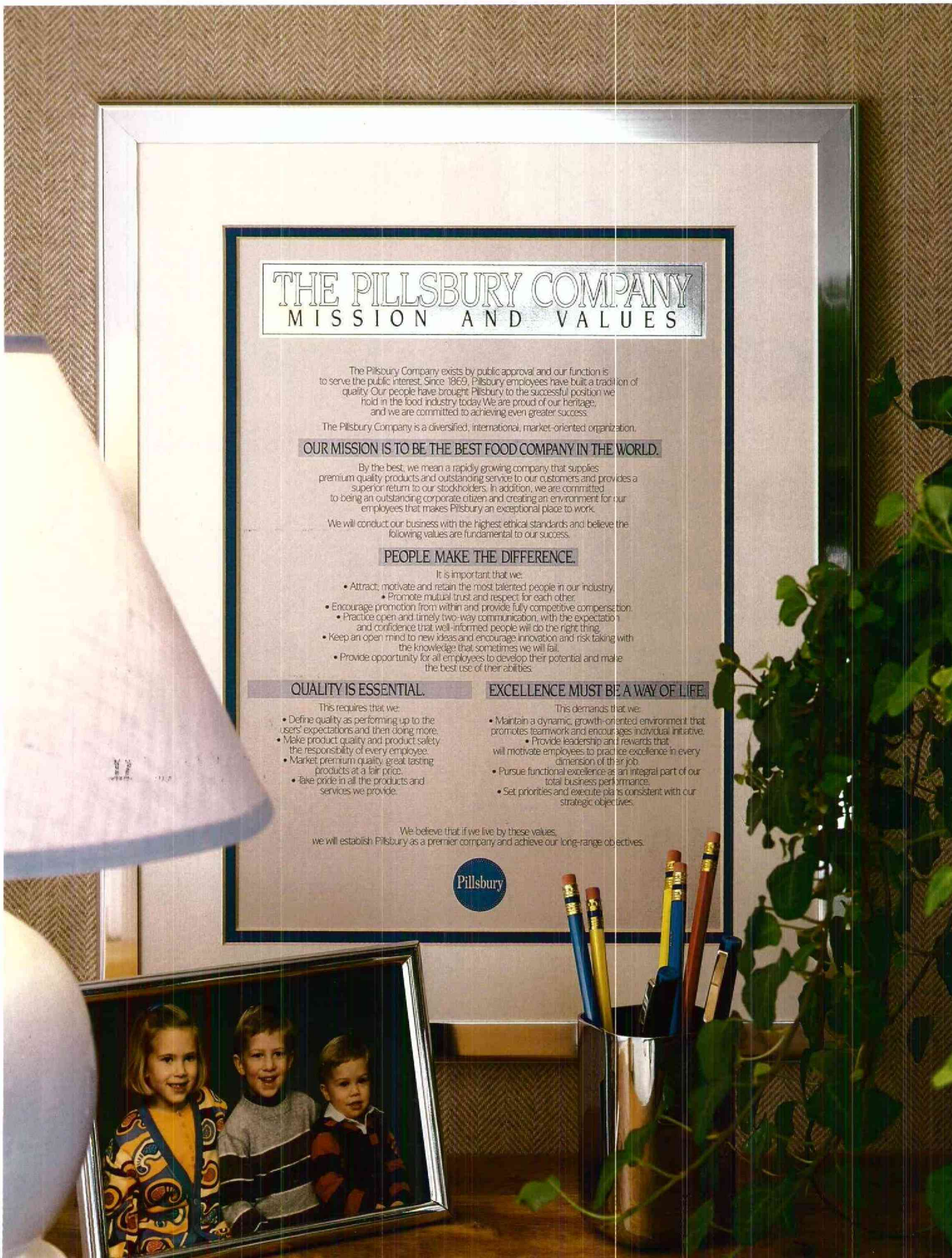
The Pillsbury Company

1987 Annual Report



THE PILLSBURY COMPANY
MISSION AND VALUES
The Pillsbury Company exists by public approval and our function is to serve the public interest. Since 1869, Pillsbury employees have built a tradition of quality. Our people have brought Pillsbury to the successful position we hold in the food industry today. We are proud of our heritage, and we are committed to achieving even greater success.
The Pillsbury Company is a diversified, international, market-oriented organization.
OUR MISSION IS TO BE THE BEST FOOD COMPANY IN THE WORLD.
By the best, we mean a rapidly growing company that supplies premium quality products and outstanding service to our customers and provides a superior return to our stockholders. In addition, we are committed to being an outstanding corporate citizen and creating an environment for our employees that makes Pillsbury an exceptional place to work.
We will conduct our business with the highest ethical standards and believe the following values are fundamental to our success.
PEOPLE MAKE THE DIFFERENCE.
It is important that we:
• Attract, motivate and retain the most talented people in our industry.
• Promote mutual trust and respect for each other.
• Encourage promotion from within and provide fully competitive compensation.
• Practice open and timely two-way communication, with the expectation and confidence that well-informed people will do the right thing.
• Keep an open mind to new ideas and encourage innovation and risk taking with the knowledge that sometimes we will fail.
• Provide opportunity for all employees to develop their potential and make the best use of their abilities.
QUALITY IS ESSENTIAL.
This requires that we:
• Define quality as performing up to the users' expectations and then doing more.
• Make product quality and product safety the responsibility of every employee.
• Market premium quality, great tasting products at a fair price.
• Take pride in all the products and services we provide.
EXCELLENCE MUST BE A WAY OF LIFE.
This demands that we:
• Maintain a dynamic, growth-oriented environment that promotes teamwork and encourages individual initiative.
• Provide leadership and rewards that will motivate employees to practice excellence in every dimension of their job.
• Pursue functional excellence as an integral part of our total business performance.
• Set priorities and execute plans consistent with our strategic objectives.
We believe that if we live by these values, we will establish Pillsbury as a premier company and achieve our long-range objectives.
Pillsbury

Financial Highlights

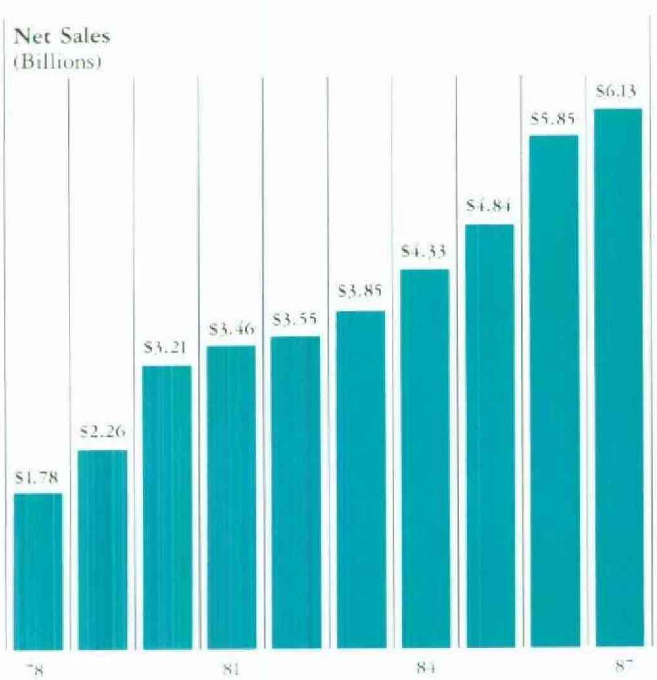
For the Year:	Year Ended May 31 1987	1986	Increase (Decrease)
	(In millions)		
Net Sales	$6,128	$5,848	5 %
Net Earnings	182	208	(13)
Cash Dividends	83	73	14
New Investments	400	1,118	(64)

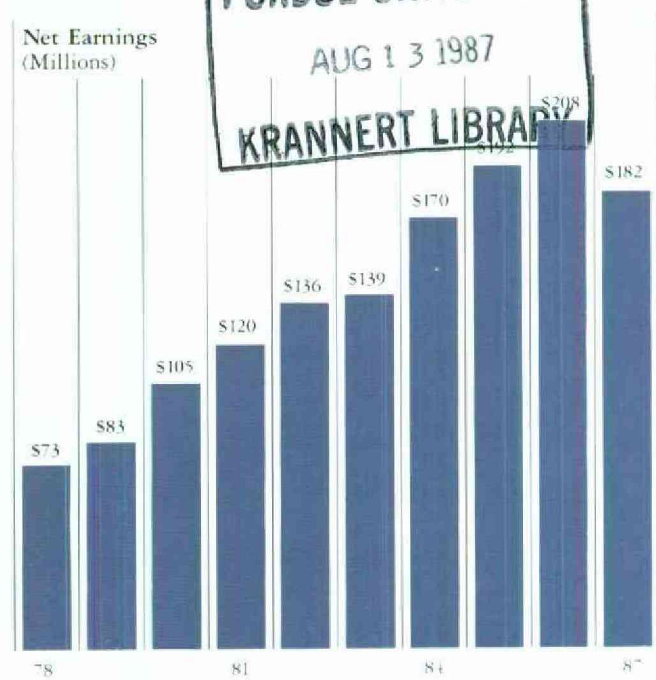
Per Share:	Year Ended May 31 1987	1986	Increase (Decrease)
Net Earnings	$ 2.10	$2.38*	(12)%
Cash Dividends	.965	.84*	15
Shareholders' Equity	16.00	15.12*	6
Closing Price of Common Stock	38¾	40⅛*	(3)

At Year-End:	1987	1986	Increase (Decrease)
Total Assets	$3,853	$3,659	5 %
Long-Term Debt	997	1,025	(3)
Shareholders' Equity	1,379	1,314	5

Performance Measures:	1987	1986
Net Earnings as a Percent of Sales	3.0%	3.6%
Return on Average Shareholders' Equity	13.5	16.8
Return on Average Invested Capital	10.1	12.7

*Restated to reflect a two-for-one stock split in November 1986.





To Our Shareholders

Fiscal 1987 was a difficult and challenging year. While our Foods business reported excellent operating results, lower earnings in Restaurants, restructuring charges and a higher tax rate resulted in Pillsbury's first earnings decline in 16 years. After intensive review, we made several hard choices and emerged more committed than ever to achieve the aggressive objectives outlined in our Mission and Values Statement.

Our key financial results were mixed. Net sales rose five percent to a record $6.13 billion. Net earnings declined 13 percent to $182 million and earnings per share were down 12 percent to $2.10. Our return on shareholders' equity was 13.5 percent. Cash dividends were increased 15 percent and a two-for-one stock split in November was our second in the last three years.

Clearly, we are not satisfied with this overall performance, and it is our intention to improve earnings and returns significantly in Fiscal 1988. To this end, programs are underway throughout the Company.

Approximately half of the Fiscal 1987 earnings decline was due to restructuring charges incurred during the fourth quarter. These charges reflect our ongoing effort to sell or divest low-return assets and improve productivity. This decision penalized Fiscal 1987 results by $12 million, or 14 cents per share. A year ago, we benefited from the sale of assets, which added $15 million, or 17 cents per share, to net earnings. Excluding these unusual items, net earnings from operations increased slightly to $2.24 per share from $2.21.

A higher tax rate also reduced earnings for the year. Passage of the Federal Tax Reform Act of 1986 eliminated investment tax credits and increased our effective tax rate to 48.4 percent versus 44.8 percent in Fiscal 1986. Nevertheless, we welcome the new tax law as it should significantly lower our future tax rate to about 40 percent.

John M. Stafford, Roger L. Headrick, Jerry W. Levin, Edward C. Stringer

Operationally, our Foods and Restaurants businesses had very different results. Foods had an excellent year with operating profit up 19 percent on a unit volume increase of six percent. Restaurants, however, did not meet expectations, and operating profit declined 28 percent, about half of which related to unusual items.

On the plus side, we had excellent results from our Prepared Dough business, from our expanding line of new microwave products, and from our International and Commodity businesses. Vegetables and Side Dishes topped last year's record profit despite intense competition. In Restaurants, Bennigan's and Godfather's Pizza were standout performers in their industry segments. Burger King, with a one percent gain in comparable store sales, reported a 12 percent increase in systemwide sales and increased its share of the domestic hamburger market.

The good news, however, does not mitigate the fact that we had some major problems in Fiscal 1987. Traffic counts fell sharply at Steak and Ale. We failed to achieve desired results at Quik Wok and Distron, and Ice Cream profits fell well below expectations as we revised manufacturing and testing procedures to protect product quality and the integrity of the Häagen-Dazs brand.

To improve our future operating performance, we implemented a

number of significant changes. Specifically, we:

- Closed four Foods plants, consolidated other operations and sold two flour mills to improve capacity utilization and reduce administrative costs.
- Initiated a plan to convert selected Häagen-Dazs Shoppes from a franchised to a licensed basis.
- Decided to sell 40 full service restaurants that are either poor performers or not strategically located for future growth. We also closed nine Quik Wok units.
- Cut back previously planned capital expenditures in Restaurants until they are justified by higher returns.
- Reduced headquarters staff, primarily at Burger King.
- Realigned responsibilities in the Restaurants Group with the consolidation of operations under J. Jeffrey Campbell, Group Chairman, and the appointment of Charles S. Olcott as President of Burger King USA, and Donald J. Slater as President of the S&A Restaurant Corp.
- In addition, we modified the way we will determine future long-term incentive compensation awards for senior management to include the achievement of higher returns on shareholders' equity and invested capital, as well as continuing to reward earnings per share growth.

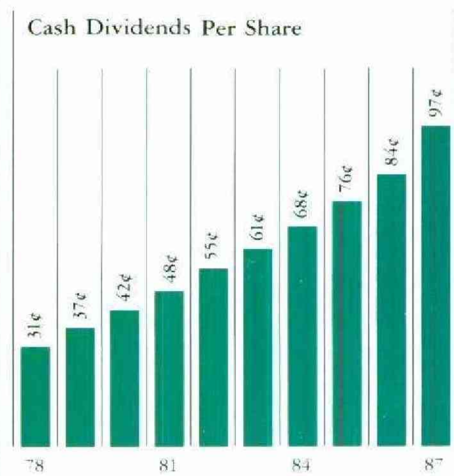
We believe that these actions and the continuing efforts of Pillsbury's exceptional employees will restore our historic earnings growth and add meaningfully to shareholder wealth. The $400 billion-a-year food industry in the United States and the infinitely larger international market offer tremendous opportunity for continued growth as we build on our strong Foods brands and restore momentum to our Restaurants business.

Shareholders are cordially invited to attend the 118th Annual Meeting of The Pillsbury Company to be held at the Ordway Music Theatre in St. Paul at 2:00 p.m. on September 10, 1987.

Respectfully submitted,

John M. Stafford,
Chairman of the Board,
President and
Chief Executive Officer

July 15, 1987



Foods

Pillsbury's Foods Group turned in another excellent performance in Fiscal 1987. Sales rose six percent to $3.36 billion, operating profit increased 19 percent to $246 million and pretax return on invested capital advanced four percentage points to a record 25 percent.

Volume for consumer foods rose six percent as a host of new products, including the industry's first microwave cake mix, added vitality and contemporary appeal to Pillsbury's already impressive array of quality packaged foods. Operations benefited from the integration of prior-year acquisitions and from low ingredient costs. Commodity Marketing and International Foods also turned in significantly improved profits.

This momentum, which is carrying into Fiscal 1988, is attributable to the market leadership of the Company's strong consumer brands and the diversity of its product offerings. More than 75 percent of the Company's consumer foods sales in the United States in Fiscal 1987 came from categories that grew during the year, and 86 percent came from businesses where Pillsbury has the number one or number two market share position. The Company also strengthened its position in the international market, where it is building a reputation as a leading producer of ready-to-eat baked goods in Europe and as a global supplier of premium quality vegetables.

Nevertheless, the year had its difficulties and disappointments. Profits were penalized by strategic decisions to improve quality control standards for Häagen-Dazs® and to build market share for Van de Kamp's® at a time of rising fish costs. Canned vegetables and industrial flour were hurt by competitive price declines, and Toaster Strudel™ pastries, a major new product of Fiscal 1985, proved to have less sales potential than originally anticipated.

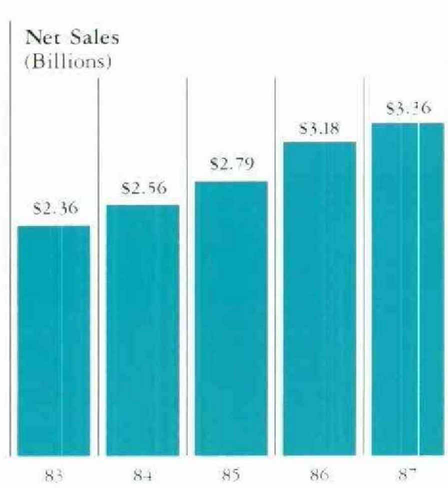
John L. Morrison, Thomas R. McBurney, Russell J. Bragg, Kent C. Larson

The Company's new product emphasis is increasingly focused on microwave technology, where years of research and expertise have made Pillsbury the acknowledged industry leader. A product line of 12 top quality microwave-only items generated annual sales of $172 million – nearly a threefold increase from Fiscal 1985. To support this effort, as well as maintain the Company's technical edge across its entire product line, research and development spending for Foods was increased eight percent to $38 million.

Advertising increased nine percent and surpassed $100 million for the first time. Including consumer and trade promotion, total marketing expenditures rose three percent to $545 million.

The Pillsbury Doughboy, with the ticklish tummy and the image of freshness, is more than just a super salesman for the Company. According to *Advertising Age*, he's the nation's favorite commercial character as well.

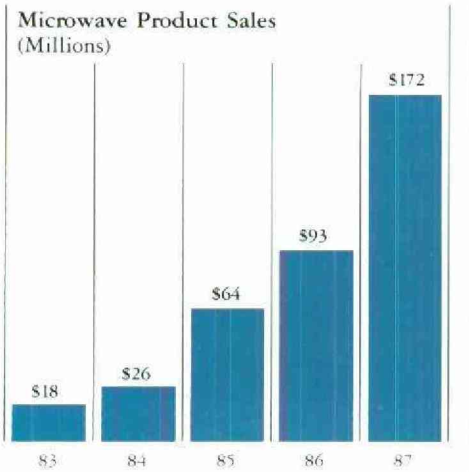
As part of its mission to be the best, Pillsbury strives to meet and exceed the expectations of its customers.




Pillsbury
Microwave
Make & Bake in 10 minutes!
Desserts with a passion.
Pillsbury
The
ULTIMATE
Desserts with a passion
Pillsbury
Milk Chocolate
Frosting Supreme
Ready To Spread
Natural Chocolate

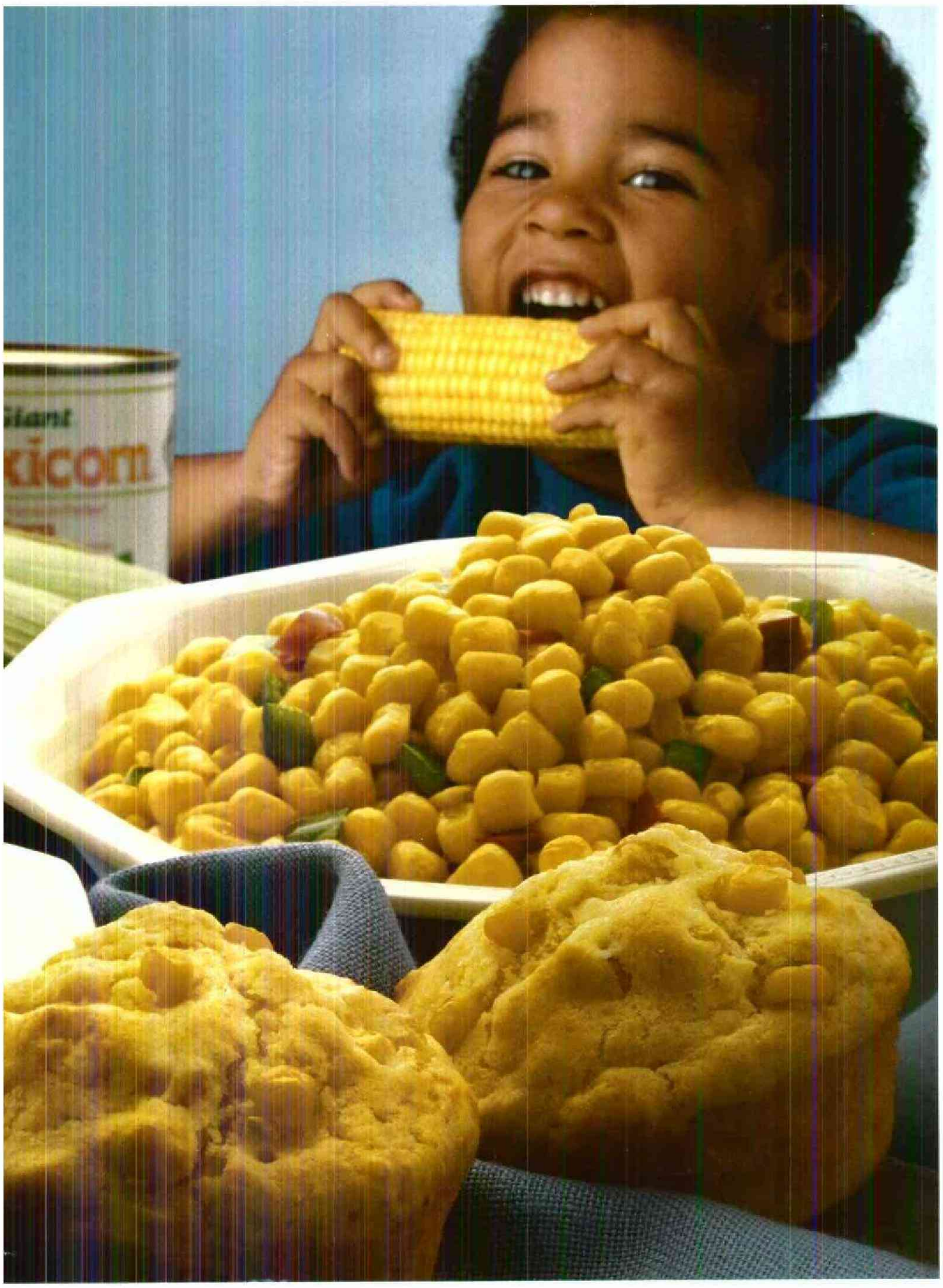
The Company has united a number of critical functions including manufacturing, sales, distribution, information systems and transportation in an effort to become the preferred supplier to the grocery trade. Encompassing simple, straightforward goals of order and billing accuracy, on-time delivery, and prompt communication of problems, the three-year-old program has lifted customer service scores by 20 to 30 percent in each category, resulting in increased purchases of Pillsbury products.

A number of important steps were taken in Fiscal 1987 and early Fiscal 1988 to improve capacity utilization at production facilities, and where possible, consolidate operations. A flour mill and a regional ice cream operation in the U.S. were sold, as was a joint venture in Australia. A second flour mill is in the process of being sold, two other manufacturing plants in the U.S. and one each in Canada and Germany were closed, and Mexican operations were reorganized. The Company believes that with these efforts it will be an even stronger competitor in the years ahead.

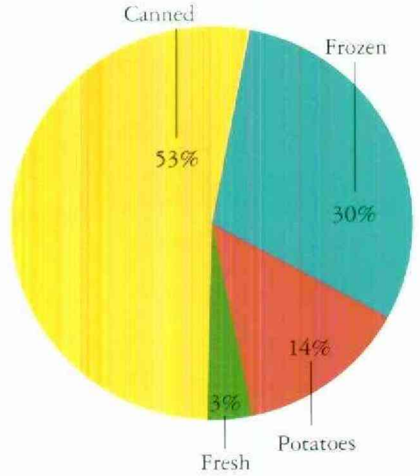


Vegetables and Side Dishes
Fiscal 1987 sales $726 million, up 4 percent.

Pillsbury is the number one producer of quality branded vegetables in the U.S. with approximately 16 percent of the market. This position is based on patented hybrids, a presence in multiple markets – canned, frozen and fresh, as well as dehydrated potatoes – and on the brand image of the Green Giant® as the symbol of freshness and good-for-you nutrition.



Vegetable Sales
(% of Fiscal 1987 Sales Dollar)



In many respects, Fiscal 1987 was a difficult year as heavy price competition in the volatile canned vegetable market penalized results. Still, overall operating profit reached a record level on a one percent increase in volume. The profit improvement came from potatoes, where the Pillsbury barrelhead is replacing the French's® brand on a recently-acquired line of dehydrated specialty products, and in frozen vegetables, where Green Giant continues to improve its market share.

Introduction of microwaveable single-serving packages of corn-on-the-cob set the stage for a tempting array of new frozen product offerings scheduled for market in Fiscal 1988. Being introduced this summer are Pasta Accents™, pasta and vegetables blended together and coated with special sauces in portion-control polybag packages, and Garden Gourmet™ microwave vegetable combinations with rice or pasta. Each makes a great tasting side dish, or can be served as a meal in itself.

The fresh vegetable market, which accounts for three-quarters of all vegetable sales in the U.S., offers new potential for the Green Giant. Currently the only year-round supplier of asparagus, the Company also distributes fresh snow peas, broccoli, cauliflower and potatoes in limited markets, and is in test markets with branded salad mix and snack packs of assorted cut and trimmed vegetables.

Breads and Baking Products

Fiscal 1987 sales $1.17 billion, down 1 percent.

Dessert mixes and prepared dough are Pillsbury's heritage, and in Fiscal 1987 were among the highest contributors to operating profit as well. New products to revitalize the dessert mix segment, the sixth consecutive year of volume growth in fresh prepared dough products and a consolidation of flour milling operations highlighted the year.

The Company improved its market share position in the dessert and baking mix category as volume rose by five percent. The Pillsbury Microwave Cake Mix, in three flavors, sold 20 million packages in its first nine months and is an example of technical innovation meeting the lifestyle needs of today's on-the-go consumers.

With superior quality and a box-to-table time of just ten minutes, the specially formulated mix restores freshly baked cakes as a dessert option for many busy households.

Another sweet success in three rich flavors, The Ultimate Brownie, boosted the Company's volume in the growing brownie category by 45 percent and helped lift its market share by five points. A microwave brownie coming out this summer will add further excitement to this important market segment.

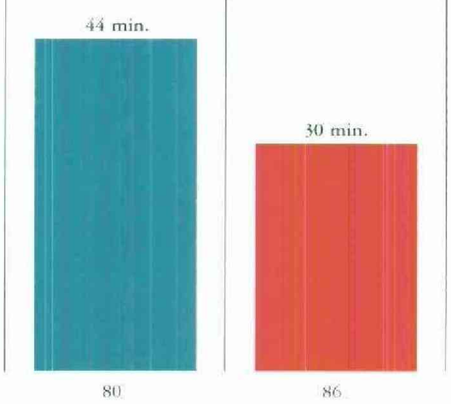
Excellent momentum in Prepared Dough enhanced the division's position as the highest volume contributor in the Pillsbury portfolio. Strong national advertising, a highly successful pre-priced biscuit promotion and the taste appeal of a variety of contemporary products combined to lift sales volume four percent. Market share levels for key products reached ten-year highs.

On the heels of such recent successes as refrigerated Breadsticks and All Ready Pie Crusts is a new product, Pastry Pockets, being introduced this summer. Unfold, fill with anything from savory meats to sweet treats, and bake to produce a delicious hot, flaky sandwich in a matter of minutes.

A leading supplier of quality biscuit, bread, Danish and doughnut mixes to the bakery and restaurant industries, Pillsbury achieved a 12 percent increase in its wholesale mix volume during the year. A new bulk frozen dough line of quality pre-layered Danish and puff pastry also generated good initial sales volume.

Pillsbury reassessed its position in the highly competitive industrial flour business during the year and reaffirmed its commitment to remain a major participant in the industry. Rising per capita flour consumption in the U.S., which has increased eight pounds since 1983 to 126 pounds per year, was a key to this decision. However, in a commodity industry which tends to compete largely on price, the Company withdrew from some low-margin business. In addition, a flour mill in Kansas was sold in December, and a mill in Los Angeles will be sold in early Fiscal 1988, reducing milling capacity by 15 percent. Pillsbury remains the nation's fourth largest flour miller, with a daily capacity of 120,000 hundred weights.

Evening Meal Preparation
(Average Time Spent)



Meals and Snacks

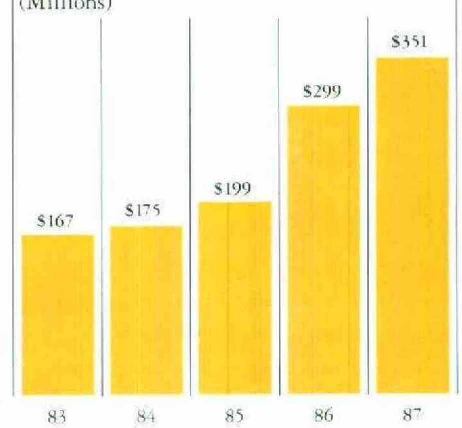
Fiscal 1987 sales $646 million, up 15 percent.

By offering a variety of contemporary new products, many with time-saving appeal, Meals and Snacks has posted excellent sales, volume and profit growth for three consecutive years. Yet, setbacks are inherent in the quest for successful new products, and there were some disappointments in Fiscal 1987.

Major products in this dynamic and diverse business segment are Totino's® and Jeno's® frozen pizza, Van de Kamp's frozen fish and Mexican entrees, a variety of Pillsbury Microwave and Toaster™ branded products, and the Azteca® line of refrigerated Mexican items.

Pillsbury is the nation's largest seller of frozen pizza, and with the integration of the Jeno's business last year, pizza became a major profit contributor as well. However, volume declined seven percent. To better segment its two brands and improve profit margins, the Company is launching a major repositioning of its pizza line. Totino's familiar Party Pizza is being reintroduced as Temptin' Toppings™, a higher priced product with more and better toppings and a thicker sauce. Jeno's pizza is also being improved with a better crust and tastier sauce, but will retain its lower price.

Pizza Sales
(Millions)



Led by three crisp crust microwave pizzas – Pillsbury French Bread Pizza, Pillsbury Microwave Pizza and Totino's Microwave Pizza – the Company's microwave business continued its excellent growth in Fiscal 1987. Classic™ Casseroles, high quality single-dish meals with flaky pastry crusts, generated good initial-year sales. Microwave Popcorn and Pancakes, Pillsbury's pioneer products in the microwave field, also posted sales increases, but lost some market share to new competition.

Van de Kamp's introduced the nation's first microwaveable fish fillets and sold more than three million packages in the first four months. Microwave Fish Sticks will be introduced this summer. By bringing microwave convenience to the ocean's choicest catches, Van de Kamp's is broadening its consumer appeal and rapidly gaining market share.

Although the total market for frozen fish experienced little growth in Fiscal 1987, Van de Kamp's posted an 11 percent volume growth on top of a nine percent increase in Fiscal 1986. It is now the market's leading brand in the 80 percent of the country where it is available. However, advertising and marketing support to achieve those gains at a time of rapidly rising fish costs squeezed profit margins.

In Toaster™ branded products, Toaster Muffins™ breakfast muffins delivered high first year sales, but Toaster Strudel™, which has been on the market for three years, was a disappointment. Instead of becoming a breakfast mainstay, Strudel has become an occasional treat for a loyal, but limited consumer base. Accordingly, marketing plans have been scaled back.

Ice Cream

Fiscal 1987 sales $174 million, up 11 percent.

Häagen-Dazs, the world's best known luxury ice cream, is truly one of the premium brands in the Pillsbury portfolio. Backed by a reputation for uncompromising quality and innovative new products, its strategies are in place and are working. But, the cost of achieving that position in Fiscal 1987 was high.

Three strategic decisions – to implement stringent new quality control standards, to significantly expand distribution through Company-owned facilities, and to pursue a plan to revitalize the Shoppes' business – sharply reduced profits and will adversely impact Fiscal 1988 as well. These decisions, however, will enhance the Company's position for long-term growth.

Volume increased 11 percent with the national rollout of the Häagen-Dazs Ice Cream Bar, a premium adult dessert treat coated with Belgian chocolate. Fifty-five million of the four-ounce bars were sold during the year.

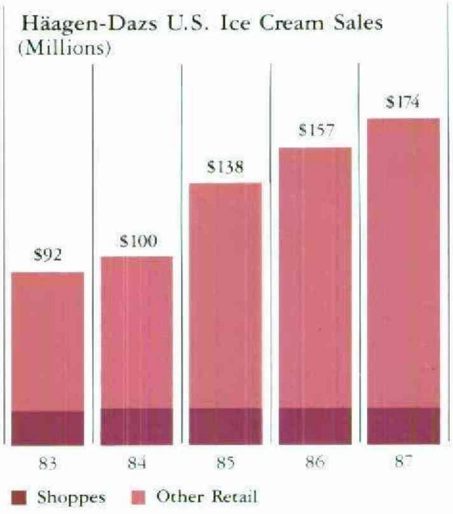
Although Häagen-Dazs has always maintained the highest health and quality standards, some ice cream producers have faced extensive product recalls in recent years. Believing it essential to protect its brand image, Häagen-Dazs undertook a voluntary, but costly program to totally upgrade its manufacturing facilities and testing procedures to prevent any such incident.

To further control product quality, while improving shelf space and marketing support, the Company distributes its products directly to retail stores rather than through frozen food warehouses. The Company revitalized its network of independent distributors during the year and doubled

its share of volume moving through Company distribution centers to nearly 30 percent.

While profitability in the 300 franchisee-owned Shoppes continues to be a problem, volume stabilized for the first time in three years. Shoppes account for approximately ten percent of total Häagen-Dazs volume. As part of an effort to provide more flexibility and financial options for Shoppes' owners, Häagen-Dazs is offering to convert franchised operations in selected areas to a licensed basis.

At year-end, the Sedutto Ice Cream Corporation, a small producer of specialty ice cream products for the restaurant and food service industry in New York, was sold in order to concentrate solely on the Häagen-Dazs brand.



International Foods

Fiscal 1987 sales $554 million, up 28 percent.

Pillsbury significantly improved the scale and quality of its international operations in Fiscal 1987. Including operations of unconsolidated affiliated companies, total sales approached $800 million. Excellent results from almost all businesses and geographic areas generated ten percent volume growth and a significant increase in operating profit. Changes in the value of the U.S. dollar against foreign currencies accounted for about one-third of the profit improvement.

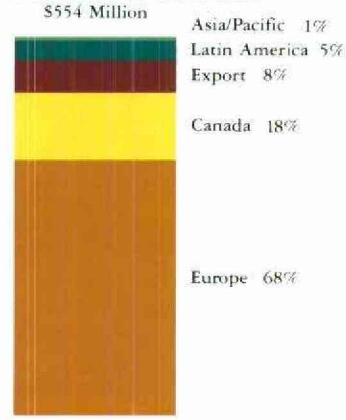
Acquisitions in France, Belgium and Spain and the completion of a program to restructure selected operations represented major steps in the implementation of an international strategy. That strategy is to build on existing businesses in the developed markets of Canada and Europe; expand in those product categories where the Company has global brands and expertise, namely baked goods, Green Giant vegetables and Häagen-Dazs ice cream; and pursue the long-term potential for Pillsbury's technology in vegetables and flour-based products in the developing economies of Latin America and the Asia/Pacific region. The Company also exports a wide variety of products to more than 50 countries.

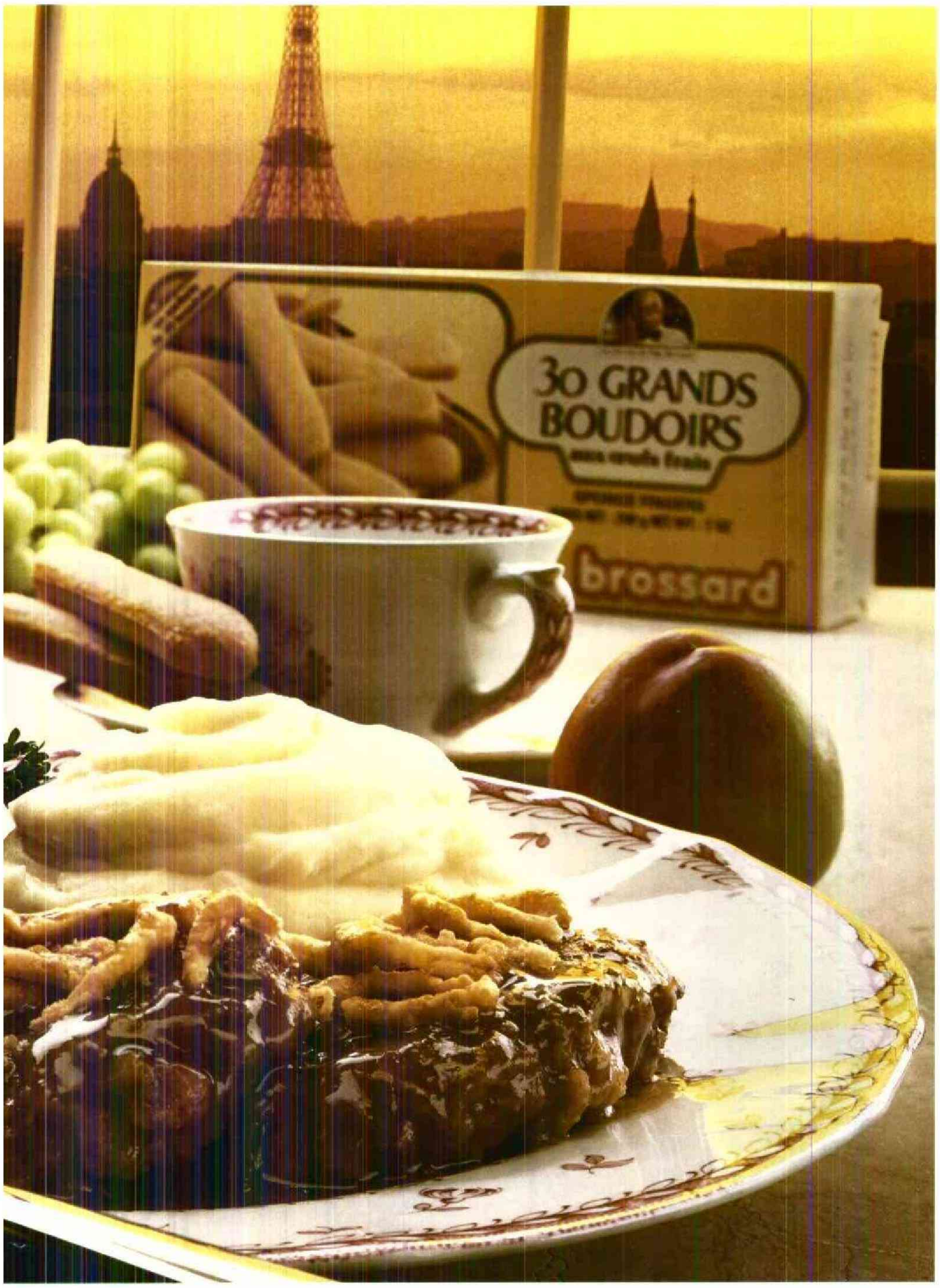
In Europe, the acquisition of two producers of ready-to-eat cakes in France and Belgium added important strength to the Company's Gringoire-Brossard line of premium cookies and cakes. The acquisition of Chistu, Spain's leading producer of white asparagus, and the addition of production capacity for Green Giant canned corn in France further enhanced the European continent.

European operations also benefited from the consolidation of two frozen foods companies in West Germany; record volume and profit for Erasco, Germany's leading producer of canned dish-ready meals; and good volume and profit improvement from Hammonds sauces in the United Kingdom. In May, the first Häagen-Dazs Ice Cream Shoppe opened in Europe, in Cologne, West Germany.

Green Giant vegetables achieved record market shares in Canada, although operating profit was hurt by

International Food Sales
$554 Million





a poor vegetable pack and disappointing results from the Brights and Martins apple juice business. Juice operations were consolidated and one plant was closed to improve operating efficiency. In June 1987, the Company acquired Fraser Valley Foods, a major producer of canned and frozen fruits and vegetables in British Columbia.

In Latin America, Pillsbury's flour and pasta businesses continued to set volume records in Venezuela and Jamaica. A joint venture in Mexico was dissolved by selling the Company's interest in a flour mill to its partner while acquiring the partner's interest in a growing pasta and cookie business.

Pillsbury's operations in Asia are conducted through joint ventures in order to benefit from the presence of strong local partners. While all operations had a strong year, the performance by Häagen-Dazs Japan, a joint venture with Suntory Limited, was exceptional. It completed its second year with a twofold increase in sales as the number of Ice Cream Shoppes doubled to 20 and supermarket penetration increased. The Company's half interest in ETA Foods of Australia was sold after its partner was acquired by a competing food producer.

Commodity Marketing

Fiscal 1987 sales $98 million, down 37 percent.

Despite continued problems in the farm economy, Pillsbury's two separate Commodity Marketing operations – Grain Merchandising and Feed Ingredients – turned in excellent performances. Operating profit and returns were among the best in the Company's history.

Recent restructuring in Grain Merchandising significantly reduced fixed assets, modernized grain storage facilities and eliminated marginal operations, resulting in one of the most efficient grain handling systems in the country. By being able to respond quickly to market opportunities, the Company handled in excess of 240 million bushels of grain, mostly corn and soybeans, during Fiscal 1987, and its 85 million bushels of storage space operated at near capacity.

The Company scaled back its operations in the bulk commodity business – the handling and river transportation of fertilizer and coal – as new capacity entering the market resulted in margin declines.

Stability characterized the Feed Ingredient business as strong demand from the poultry, hog, beef and dairy industries provided a balanced market for most processed feed products. The nation's largest merchandiser of processed feed ingredients, Pillsbury markets the by-products of its flour mills, spent grains from the brewing industry and other related products to meet this demand.

Restaurants

Pillsbury's Restaurants Group is one of the industry's largest and most diversified, with excellent growth potential. Yet, its performance in Fiscal 1987 was less than satisfactory. Net sales increased four percent to $2.76 billion while systemwide sales, which include those of franchisees, rose 11 percent to $6 billion.

However, operating profit of $219 million fell 28 percent from the prior year's record, when a $41 million gain was recorded on the sale of Burger King® real estate to a master limited partnership. Restructuring charges reduced Fiscal 1987 profits by $17 million. Excluding these unusual items, operating profit declined 13 percent. Pretax return on invested capital fell ten points to 18 percent.

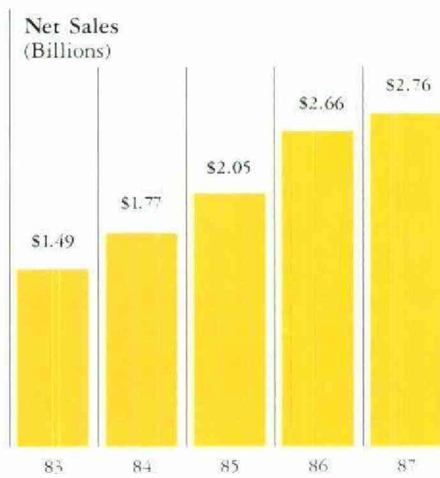
Lower sales at the Steak and Ale® dinnerhouse chain, heavy start-up costs associated with new concepts, primarily Quik Wok®, higher operating costs at Distron®, and substantially lower refranchising gains from the sale of Company-operated restaurants to Burger King franchisees were the principal reasons for the profit decline. Excluding the latter, Burger King USA reported a four percent increase in operating profit. Bennigan's®, the nation's leading casual dining concept, Godfather's Pizza®, and Burger King International also reported higher profits.

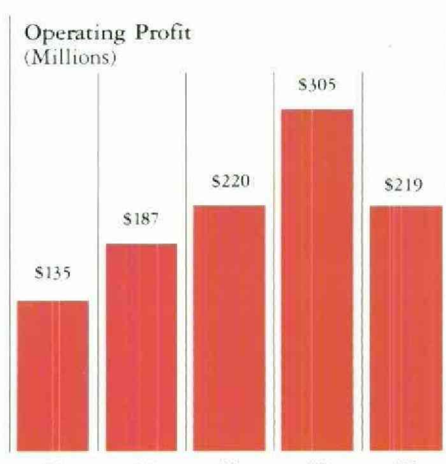
Although the restaurant industry in the United States has been hurt by over-expansion and a slowdown in the growth of consumer spending, basic trends remain intact, and it continues to exhibit excellent strength and vitality. Last year, consumers spent 31 percent of their total food dollars on food eaten or prepared away from home, up from 21 percent two decades ago. While quality, service and value continue to be the keys to success, today's consumers are looking for these attributes in combination with great taste, convenience and fun places to eat. With more than 6,200 Company-operated and franchised restaurants spanning the fast food, casual dining and full service segments, Pillsbury is a leader in meeting the public's varied dining expectations.

Charles S. Olcott, Herman Cain, J. Jeffrey Campbell, Kyle T. Craig

To improve operating performance and returns, the Company is focusing on executing the basics of the business better, on improving productivity at both the restaurant and headquarters level, and on developing the synergies between its various restaurant concepts and its Foods Group in such areas as research, menu development and procurement. During the year, the Company's two restaurant divisions were joined to form a single Restaurants Group, new operating management was put in place in several concepts, including Burger King USA, and headquarters staffs were significantly reduced.

Losses on new concepts will be sharply reduced in Fiscal 1988 as expansion plans are slowed. In addition, the Company established a






BURGER KING
URGER
NG.
WHOPPEF
BURGER KING
BURGER KING
DOUBLE CHEESEBURGER
BURGER KING
BURGER KING

reserve covering the sale of at least 40 low-return full service restaurants which are not strategically positioned to meet its growth and return objectives.

During the year, 81 Company-operated restaurants were opened, compared with 120 in Fiscal 1986. This represents a temporary reduction in expansion plans as efforts are undertaken to develop lower cost construction methods and design new units which can be built on smaller parcels of land. At Burger King, much of this effort is driven by a desire to improve speed of service through the introduction of units with double Drive Thru windows and more efficient kitchens.

By succeeding in developing the most economical way to deliver the best products to consumers, whether they want it on-the-go, delivered to their door, or eaten in the ambience of a full service dinnerhouse, Pillsbury will continue to be an innovative and profitable leader in this growth industry.

Fast Food

Fiscal 1987 sales $2.03 billion, up 4 percent.

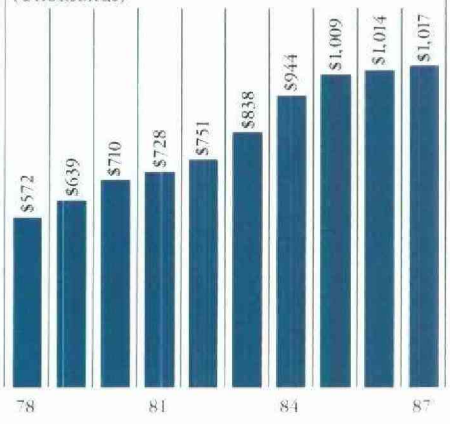
It was a troubling year for the fast food industry, but one in which Burger King increased its share of the hamburger market and Godfather's Pizza regained its competitive strength. It also was a year in which both chains placed renewed emphasis on harnessing the entrepreneurial leadership of their franchisees, the independent businessmen and women who provide much of Restaurants' vitality.

Systemwide sales for Burger King, which include sales by franchised restaurants, rose 12 percent to $5 billion. This growth is attributable to a nine percent increase in the number of units to 5,179 restaurants worldwide and a one percent increase in comparable store sales, which exceeded $1 million per unit for the third consecutive year.

Burger King USA achieved its strongest position ever, with more than 17 percent of the domestic hamburger market, while Burger King International brought the great taste of flame-broiled hamburgers to three new countries, Indonesia, the Philippines and the U.S. Virgin Islands, expanding the system to 30 countries.

At a time when competing chains were heavily promoting price discounts

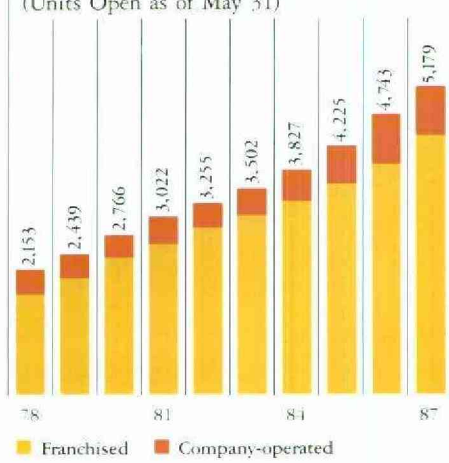
Burger King Average Domestic Unit Sales
(Thousands)



and product give-aways, Burger King sought to compete in terms of quality and value. The superior taste of a flame-broiled hamburger garnished your way, and increased emphasis on speed of service and order accuracy remain the most successful weapons in the battle for consumer loyalty and sales growth.

A new advertising campaign, "The Best Food for Fast Times™," as a succinct statement of its total marketing focus, and an advertising budget which exceeded $200 million combined to give Burger King strong media awareness during the year.

Burger King Restaurants
(Units Open as of May 31)



New products added taste excitement, convenience and nutritional alternatives to the signature Whopper® sandwich and popular burger lines. Prepackaged Crisp & Ready-to-Go Salads in four varieties – shrimp, garden, chef and a smaller side salad – were undergoing widespread testing at year-end as portable alternatives to the traditional salad bar. Burger Bundles™, mini-cheeseburgers served three to a package, received excellent consumer response during an extensive market test, and are being promoted nationally this summer.

With Chicken Tenders™, 100 percent breast of chicken pieces introduced a year ago, and a top selling chicken sandwich, chicken now accounts for 11 percent of total sales. French Toast Sticks, a new breakfast finger food, helped lift breakfast sales to a similar 11 percent share.

The public's quest for convenience is illustrated by the fact that more than 45 percent of all sales are now made at the Drive Thru window and another 20 percent are take-out orders. Today's on-the-go lifestyle is prompting major changes in the way the Company looks at new products, new restaurants and new sites. At year-end, nearly 200 Burger King restaurants were located at such unconventional sites as food courts, airports, zoos and hospitals, as well as on Army and Air Force bases. Twenty-one mobile Burger King Express units serve special locations such as fairs, beaches, college campuses and ball games.

Burger King International continued its profitable growth as a record 79 new restaurants were opened during the year, bringing the total to 478. The Company acquired its high-volume Paris franchisee, where the Champs Elysees store set a system sales record of $5.7 million during the year. In addition, the Company opened highly visible restaurants at London's Gatwick airport and Munich's Hauptbahnhof railway station and, with the opening of its first freestanding units in Europe, introduced Drive Thru convenience to the United Kingdom and Germany.

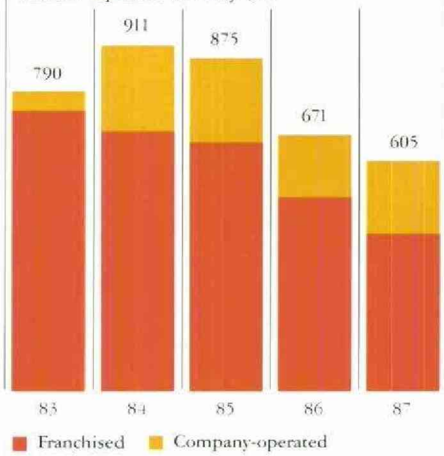
Worldwide, 42 new Company-operated restaurants were opened during the year, down from 77 a year earlier. Franchisees added 431 new restaurants, nearly equal to their record pace of Fiscal 1986. As part of an ongoing asset management program, the Company refranchised 86 restaurant operations during the year, sold 36 restaurant properties to franchisees and acquired 16 other restaurants from franchisees. Frequently, the Company sells established restaurant operations as part of a seeding program to build a strong franchisee base in a particular location. In Fiscal 1986, 204 Company-operated restaurants were refranchised.

At year-end, the Company operated 794 restaurants, or 15 percent of the system, compared with 838 restaurants and 18 percent of the system a year earlier. Store operating profit at these restaurants increased slightly to 15.6 percent of sales.

As the employer, with its franchisees, of nearly 270,000 crew members and managers in the U.S., the Company has both an economic incentive and moral responsibility to become a preferred employer. This responsibility is heightened by the number of restaurant employees who are teenagers taking their first job or are members of minority groups.

A Crew Educational Assistance Program, with scholarships of up to $2,000 for post-secondary education, provided benefits to nearly 3,000 crew

Godfather's Pizza
(Units Open as of May 31)



members at a cost of $1.3 million in Fiscal 1987. Introduced two years ago at Company stores, the Program has had a major impact on reducing crew turnover – participants have only one-third the turnover rate of other employees – while improving store operating profit and employee loyalty.

Distron, the Burger King distribution and procurement division, achieved its first $1 billion sales year, but profits slipped as its penetration of the franchisee system declined slightly and the costs of a new computerized inventory control system were absorbed. Volume rose six percent, half of it from the addition of business at Godfather's Pizza.

Godfather's Pizza, which was acquired two years ago as part of the Diversifoods acquisition, staged a remarkable recovery in Fiscal 1987. Against stiff competition, the 605-unit chain reversed a steep, three-year decline in sales and posted its first operating profit since 1984. New products and home delivery contributed to this success, but the turnaround was primarily due to strong leadership and a rejuvenated management team.

With an infusion of top talent from Burger King and Pillsbury, management moved decisively to correct the problems of the past. Unprofitable stores were closed, lawsuits with former franchisees were resolved, 45 franchised stores were purchased by the Company, and attention once again was placed on the basics of the business. Advertising supplemented couponing as a way of building sales.

Although systemwide sales declined slightly to $261 million as the number of restaurants was reduced by eight percent, average sales per restaurant rose nine percent to $402,000 for the year. Average sales at the 194 Company-operated restaurants neared the half million dollar mark and store operating profit rose more than four points to 13.5 percent of sales.

Hot Slice™, served at lunch in three minutes, guaranteed, and Stuffed Pie Pizza™, a savory double-crusted meal, have been big new product successes.

Home delivery has been the fastest growing segment of the pizza industry, and Godfather's Pizza is participating in this growth. In the Seattle-Tacoma area, the Company's largest market, a widely-advertised

Godfather's Pizza Average Unit Sales
(Thousands)


Godfather's Pizza
HOT SLICE
GODFATHER'S
HOT SLICE
PIZZA
GODFATHER'S
PIZZA
HOT SLICE

hotline telephone number generates 3,000 calls per day. Computers automatically dispatch those orders to the nearest restaurant so that delivery can be made within 30 minutes.

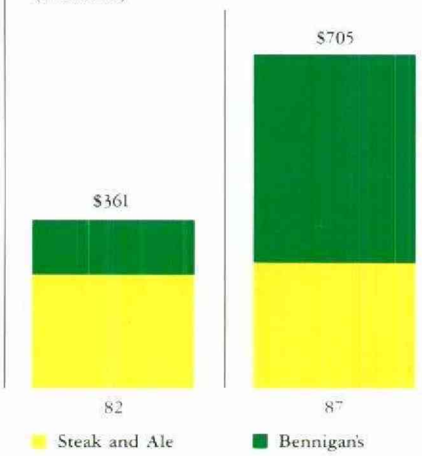
Success, however, has eluded Quik Wok, Pillsbury's 13-unit fast service Chinese concept. Nine experimental take-out and home delivery units were closed, and expansion plans were curbed. Despite substantial losses, Pillsbury believes there is potential for development of a national chain offering top quality Oriental food that can be served quickly at a good price/value. A new management team will attempt to lay the foundation for that effort in Fiscal 1988.

Full Service

Fiscal 1987 sales $737 million, up 2 percent.

In the full service restaurant business, where food quality, service, atmosphere and menu excitement blend into what is known as a "dining experience," Pillsbury's two largest concepts turned in decidedly different performances during Fiscal 1987. Bennigan's, a casual dining concept with broad adult appeal, continued to capture the public's tastes and reported excellent profit growth. However, the 21-year-old Steak and Ale chain lost momentum as sales and profit fell.

Relative Sales Contribution of Steak and Ale and Bennigan's Restaurants
(Millions)

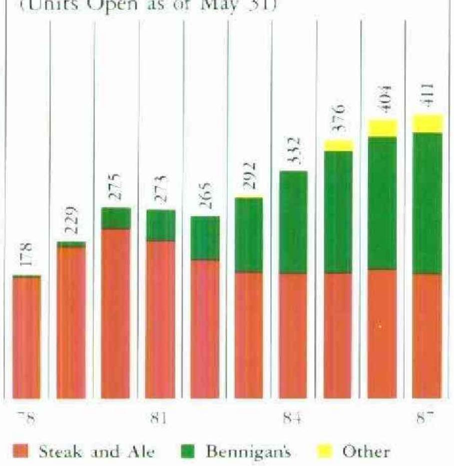


During the year, S&A Restaurant Corp., Pillsbury's full service restaurant management company, also expanded Bay Street®, a quality fresh seafood dinnerhouse, and tested two other new ventures – Key West Grill™, a casual dining concept with a Caribbean flair, and the hotel food service business.

Two broad economic and sociological trends strongly influenced S&A's results during Fiscal 1987. More than 30 percent of its 411 Company-operated restaurants are located in the energy producing states of Texas, Louisiana, Oklahoma and Colorado, where a prolonged economic decline has reduced sales. Changing public attitudes towards alcohol consumption further eroded liquor sales and confirmed S&A's strategy to focus its growth on the food side of its business.

In this environment, the Company is selling approximately 40 low-performing units and those not strategically located for future growth.

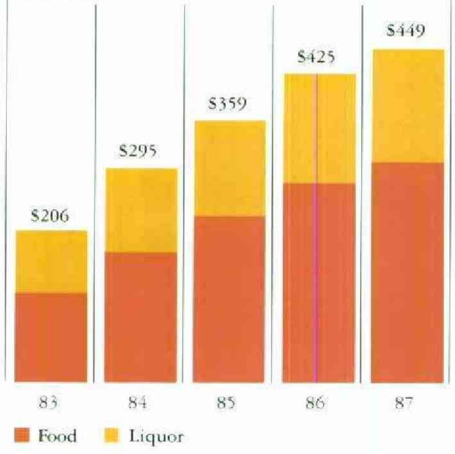
S&A Restaurant Corp.
(Units Open as of May 31)



The majority are Steak and Ale units, and many are in the energy belt. At the same time, the Company is slowing its development plans for new concepts and redirecting Bennigan's expansion toward a limited number of high potential sites, primarily on the East and West Coasts.

Bennigan's enjoyed its eleventh year of growth as unit expansion and increased food sales offset lower liquor sales. Thirteen new restaurants were opened, bringing the total to 207. Average sales per unit slipped two percent to $2.2 million due to a further decline in liquor sales to 34 percent of total sales from 37 percent the year before. Importantly, however, and store operating profit remained a very high 21.9 percent of sales.

Bennigan's Sales
(Millions)



Menu innovation has been the key to Bennigan's success as the chain has managed its business away from a tavern atmosphere to become the market leader in contemporary, casual dining. With a constantly evolving 100-item menu, Bennigan's is known as the place to try the latest food trend. It was the first national chain to introduce Cajun cooking two years ago. Oriental and pasta specialties were introduced last year. Enthusiastic consumer response has also come from Bennigan's new "15 minutes or it's free" express lunch program.

A new menu featuring 20 items priced under $9 was introduced at Steak and Ale in December in an effort to broaden the concept's appeal and strengthen its price/value perception. Customer counts improved, but not enough to offset the four percent decline in the average ticket price. Remodeling at selected restaurants also failed to reverse declining sales.

Although average sales at the 180 restaurants fell eight percent to $1.4 million, and store operating profit declined to 16.8 percent of sales, Steak and Ale retains a loyal customer base because of its quality steaks, prime rib and filets, abundant salad bar, comfortable atmosphere and good service. Steak and Ale is seeking to build on those strengths as it develops plans to revitalize the chain.

Bay Street doubled its size to 14 restaurants as it brought the casual elegance of a spacious wharfside dinner-house to new markets in New Jersey, Florida and Chicago. These markets have outperformed the original Bay Street units in Dallas and Atlanta, enabling the chain to achieve average restaurant sales of $2 million for the year. By offering a variety of fish, shrimp and shellfish cooked to order, with fresh vegetables, tempting appetizers and an outstanding wine selection, Bay Street appeals to a discriminating audience that appreciates healthy, lighter fare.

Mesquite-grilled seafood, chicken and baby back ribs, as well as such specialties as conch fritters and Key lime pie are featured at the new Key West Grill. The first restaurant opened in Clearwater, Florida, in September, and recorded $2 million in sales in eight months. A second opened in Arlington, Texas, in April and is performing well ahead of expectations.

In an effort to evaluate the hotel food service business, S&A joined with Embassy Suites to open five restaurants during the year. Providing all food and beverage service, including restaurant, room service, catering and lounge, the new venture has the potential to leverage S&A's restaurant skills for good returns with a limited capital investment.

Corporate Responsibility

Pillsbury's mission, as illustrated on the inside front cover of this report, is to be the best food company in the world. That embodies a commitment to rapid growth and superior financial performance in order to enhance shareholder wealth. But, it also poses a responsibility to adhere to the highest ethical standards, to acknowledge and reward the contribution of its 105,000 employees and to accept an active role in improving the quality of life in the communities it shares.

Fiscal 1987 was not an easy year to labor under the mantle of being the best. Operating performance and profits slipped in key areas. The Company undertook a number of steps to increase productivity and eliminate underperforming assets – some that included closing facilities and eliminating jobs. In every case, the Company provided special asssistance to help minimize the impact on employees, their families and the communities. At the same time, the Company rededicated its efforts to see that the best people are hired, motivated and advanced.

To meet its responsibilities as a corporate citizen, the Company increased its charitable contributions by five percent to $7.5 million and donated almost five and one-half million pounds of Pillsbury product seconds to food banks nationwide. As one of the nation's leading food companies and one of the largest employers of young people, the Company has focused its grants in the areas of hunger and youth.

The Washington-based Food Research and Action Center received support to establish school breakfast programs in low income areas, while Harvard University's Physician Task Force on Hunger in America was supported in its study of the effect of low-level malnutrition on the health of children and pregnant women. In the Twin Cities of Minneapolis and St. Paul, the Company also helped expand FareSHARE, a low-cost food buying program for the working poor and low income senior citizens, and the Company's S&A Restaurant Corp. subsidiary helped initiate support of food bank programs in Atlanta, Dallas, Houston and Tampa.

For the third year, Pillsbury provided a cash donation and the technical expertise of its employees for an applied nutrition program in Bolivia. Improved processing techniques for indigenous crops and the development of a solar box cooker, which could be replicated in other underdeveloped countries, are among its projects.

To help disadvantaged young people, the Quest National Center received support to create a career curriculum and mentor program for ninth and tenth graders. In Minnesota, a 4-H grant will create a model career development program for rural youth.

Education, which received 45 percent of Pillsbury's contributions, was highlighted by a grant to permanently endow The Pillsbury Company-Paul S. Gerot Chair of Marketing at the University of Minnesota, in honor of the Company's former chairman. In Honor of Excellence, a Burger King-sponsored symposium, brought together 50 outstanding teachers and 50 principals from across the U.S. to discuss educational challenges.

In addition, hundreds of employees distinguished themselves in local volunteer projects. In Santa Fe Springs, California, for instance, Van de Kamp's employees devoted a Saturday to prepare frozen enchiladas for the Los Angeles Regional Food Bank.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PLEASE ROTATE STOCK

Financial Review

In order to enhance shareholder wealth through a combination of rising dividends and market appreciation for its common stock, Pillsbury strives to be a superior performer in terms of the rate of growth and predictability of its earnings and the returns generated from the utilization of shareholder funds. Specifically, the Company seeks to:

- Achieve annual growth in earnings per share averaging 10 to 15 percent over time.
- Achieve and maintain a return on shareholders' equity (ROE) of 18 percent with an after-tax return on invested capital (RIC) of at least 13 percent.
- Retain the financing flexibility of an "A" credit rating with a long-term debt-to-total capital ratio of approximately 40 percent.

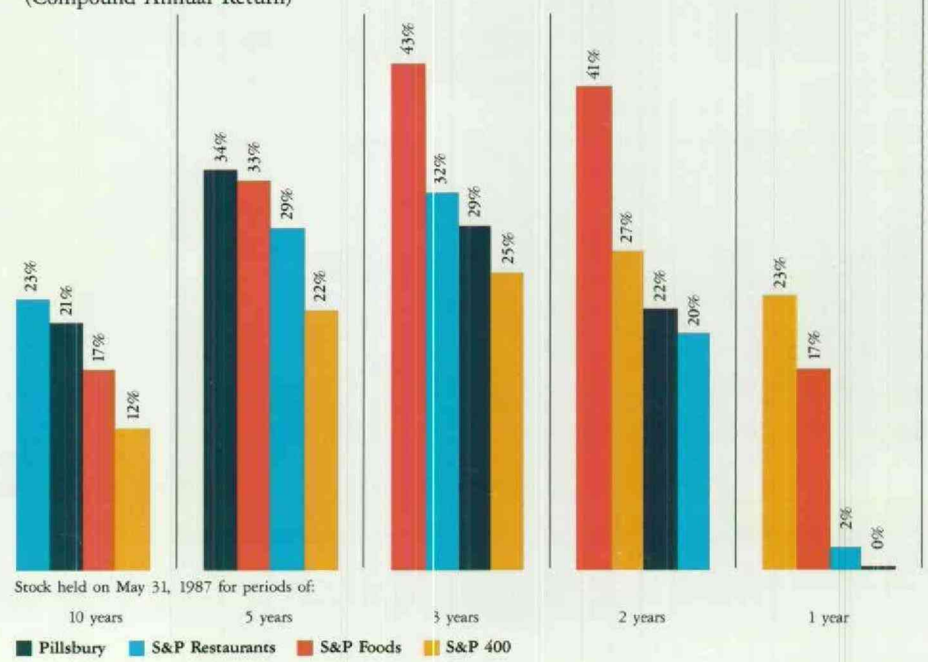
These objectives guide the Company's long-term strategy, as well as the development of its near-term business plans. Although the Company did not achieve its objectives in Fiscal 1987, it believes that they are reasonable targets which can be achieved by a balanced mix of leading Foods and Restaurants businesses. The earnings per share objective was broadened during Fiscal 1987 to reflect today's lower inflationary environment.

A difficult restaurant environment, the retroactive loss of investment tax credits under the new tax act, and restructuring charges designed to improve earnings performance and returns in coming years combined to depress results for Fiscal 1987. Against its stated objectives, the Company:

- Posted a 12 percent decline in earnings per share. Excluding gains on asset sales and restructuring charges, earnings from operations rose slightly to $2.24 per share from $2.21. Over the past decade, net earnings have grown at a compound rate of 11 percent per year, and earnings per share have grown at 9 percent.
- Achieved an ROE of 13.5 percent and an after-tax RIC of 10.1 percent. These represent the lowest returns in more than a decade and reflect lower earnings at a time when the Company is assimilating several recent acquisitions. As a result of record expenditures for investments and acquisitions over the past three years, invested capital has increased nearly 45 percent. Over the past ten years, ROE and RIC have averaged 16.3 percent and 11.6 percent, respectively.
- Maintained its "A" credit rating as long-term debt-to-total capital decreased slightly to 42 percent from the high of 43.8 percent in Fiscal 1986.

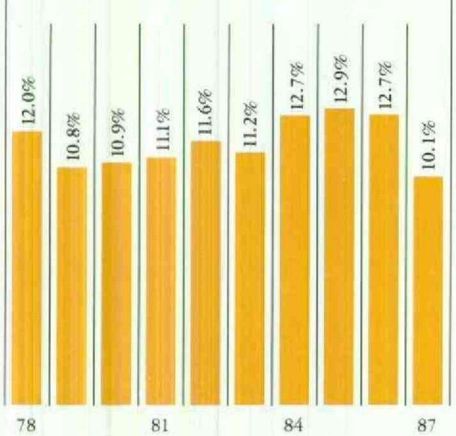
After years of superior performance, the Company's total return to shareholders for the year was, essentially zero, as its year-end stock price declined by three percent from a year earlier – the first such drop in seven years. Dividends, however, were increased 15 percent to 97 cents per share, making Fiscal 1987 the 29th consecutive year that the Company paid higher dividends. Assuming reinvestment of dividends, Pillsbury's long-term shareholders have done very well, with compound total annual returns of 34 percent over the past five years and 21 percent over ten years. Those returns compare favorably with investments in competitor companies and in the stock market as a whole, as measured by Standard & Poor's index of food, restaurant and industrial companies.

Total Return to Shareholders
(Compound Annual Return)

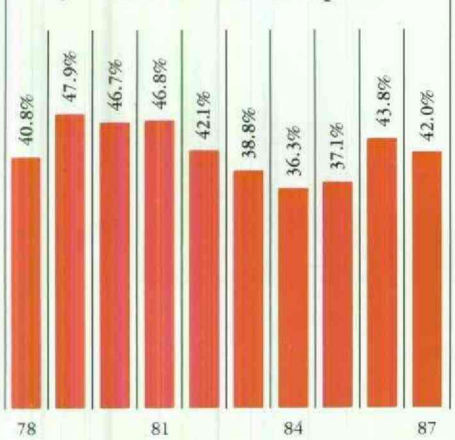


Return on Equity

Return on Invested Capital



Long-Term Debt-to-Total Capital



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.

Accountants' Report

Minneapolis, Minnesota
June 24, 1987

Shareholders and Board of Directors
The Pillsbury Company

We have examined the consolidated balance sheets of The Pillsbury Company and Subsidiaries as of May 31, 1987 and 1986, and the related statements of earnings and changes in financial position for each of the three years in the period ended May 31, 1987. 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 (pages 26, 28, 30, and 34 to 42) present fairly the financial position of The Pillsbury Company and Subsidiaries at May 31, 1987 and 1986, 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, 1987, in conformity with generally accepted accounting principles consistently applied during the period except for the change in 1986, with which we concur, in the method of accounting for pensions as described in Note 17 to the consolidated financial statements.

Touche Ross & Co.

Certified Public Accountants

The Pillsbury Company and Subsidiaries
Consolidated Statement of Earnings

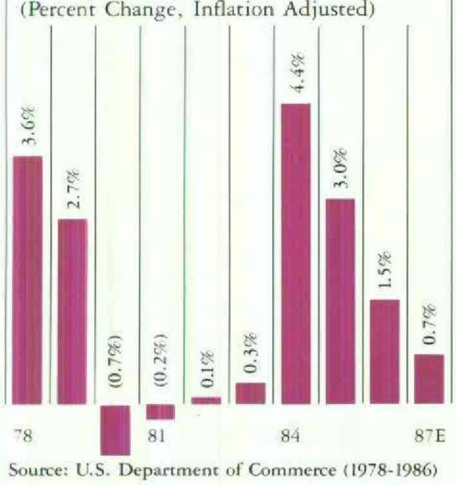
	Year ended May 31		
	1987	1986	1985
	(In millions except per share amounts)		
Net sales	$6,127.8	$5,847.9	$4,843.4
Costs and expenses:			
Cost of sales	4,292.2	4,102.6	3,465.5
Selling, general and administrative expenses	1,387.5	1,270.9	984.7
Interest expense, net	95.6	97.3	53.0
	5,775.3	5,470.8	4,503.2
Earnings before taxes on income	352.5	377.1	340.2
Taxes on income	170.6	169.0	148.4
Net earnings	$ 181.9	$ 208.1	$ 191.8
Average number of shares outstanding	86.7	87.3	86.8
Earnings per share	$ 2.10	$ 2.38	$ 2.21

Notes to Consolidated Financial Statements are an integral part of this statement.

Through internal development and acquisitions, Pillsbury has achieved a record of 31 consecutive years of sales growth, with a compound annual growth rate of 14 percent over the past decade. In Fiscal 1987, sales topped $6 billion for the first time. Net earnings have risen 11 percent per year on average over the past decade, but declined 13 percent during the past year as restructuring charges, higher taxes and poor Restaurants performance detracted from an excellent year in Foods.

SALES rose 5 percent following a 21 percent increase in Fiscal 1986 when several large acquisitions were completed. Over the two years, sales increased more than $1.28 billion. Two major economic trends in the United States have influenced sales in recent years – the low level of inflation and a slowdown in the growth rate for per capita disposable income, a significant determinant of restaurant sales. In this environment, the Company raised prices by an average of only 2 percent in each of the past two years.

Per Capita Disposable Income
(Percent Change, Inflation Adjusted)



Source: U.S. Department of Commerce (1978-1986)

COSTS AND EXPENSES have been influenced by the Company's growth, by the economy and by management's efforts to improve productivity. Because most ingredient costs, with the exception of fish, beef and pork, have declined over the past two years, the cost of sales has increased at a slower pace than net sales. As a result, the Company's gross margin increased to 30 percent of sales in Fiscal 1987 from an average of 28 percent over the past decade. In Fiscal 1987, the gross margin in Foods rose one point to 36 percent of sales, while in Restaurants, it declined a point to 22 percent of sales.

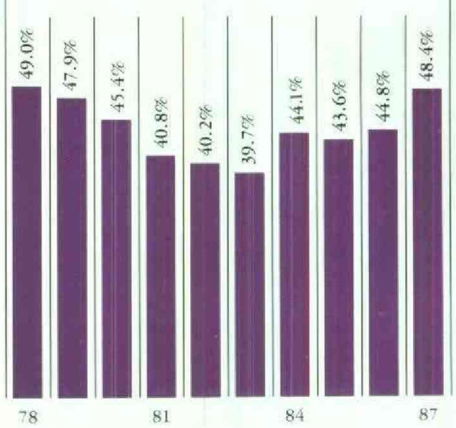
Selling, general and administrative (SG&A) costs increased to 23 percent of sales from 20 percent two years ago. Higher advertising and promotional spending, particularly in Fiscal 1986, the cost of new product introductions and concept development in Restaurants, and one-time charges to restructure portions of the business account for the increase. SG&A costs for Restaurants are considerably lower than for Foods because the Company's largest restaurant concept, Burger King, is predominantly operated by franchisees. Advertising and sales promotion, for instance, represented 16 percent of Foods sales, but only 3 percent of Restaurants sales as Burger King franchisees pay their own share of advertising costs.

Interest expense declined 2 percent in Fiscal 1987, but was 80 percent higher than in Fiscal 1985, reflecting financing charges associated with recent acquisitions.

EARNINGS BEFORE TAXES ON INCOME declined 7 percent after having risen 11 percent in Fiscal 1986. Excluding restructuring charges in Fiscal 1987 and a gain on asset sales in Fiscal 1986, pretax earnings rose 6 percent to $381 million from $360 million. Excluding unusual items, operating profit for Foods increased nearly one percentage point to 7.9 percent of sales, while Restaurants profit declined almost two points to 8.5 percent.

TAXES ON INCOME reflected an effective tax rate of 48.4 percent in Fiscal 1987, one of the highest in a decade, compared with 44.8 percent in Fiscal 1986 and 43.6 percent in Fiscal 1985. The increase was due primarily to the loss of investment tax credits retroactive to January 1, 1986 under the Federal Tax Reform Act of 1986. Although the new tax law adversely impacted Fiscal 1987, it will benefit future years through a sizable reduction in the tax rate effective July 1, 1987.

Effective Tax Rate



NET EARNINGS declined to 3 percent of sales from 3.6 percent and 4 percent in the two prior years. Unusual items reduced net earnings by $11.9 million, while they benefited the prior years by $14.9 million and $15.7 million, respectively. Excluding those items, net earnings increased slightly for the year and rose 10 percent from Fiscal 1985.

AVERAGE SHARES OUTSTANDING were reduced 1 percent through stock purchases to cover employee benefit plan requirements. As a result, earnings per share declined slightly less than the decline in net earnings.

The Pillsbury Company and Subsidiaries
Consolidated Statement of Changes in Financial Position

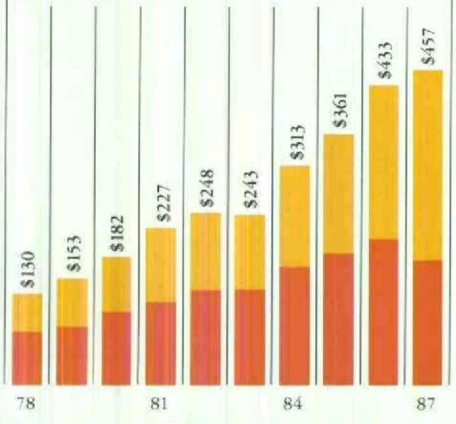
	Year ended May 31		
	1987	1986	1985
		(In millions)	
Funds from operations:			
Net earnings	$ 131.9	$ 208.1	$ 191.8
Charges to income not requiring working capital:			
Depreciation	197.6	175.3	133.9
Amortization of intangibles and other assets	23.9	20.2	8.8
Deferred taxes on income	54.0	28.9	26.1
	457.4	432.5	360.6
Funds from (used for) changes in working capital employed:			
(Increase) decrease in receivables	(30.0)	(109.2)	(27.7)
(Increase) decrease in inventories	(82.0)	(57.4)	7.4
(Increase) decrease in other current assets	(18.3)	(34.2)	87.8
Increase (decrease) in accounts and drafts payable	107.1	166.4	(22.0)
Increase (decrease) in advances on sales	22.3	57.0	(101.6)
Increase (decrease) in taxes on income	(49.8)	21.4	11.9
Increase (decrease) in other current liabilities	4.9	124.5	28.9
	(45.8)	168.5	(15.3)
Funds from conversion of noncurrent assets:			
Disposals of property, plant and equipment	73.4	125.3	33.1
Proceeds from sale of notes with recourse	8.1	24.2	22.3
Proceeds from disposal of other assets	20.9	134.6	21.9
Other, net	26.2	21.5	11.5
	128.6	305.6	88.8
Total funds generated internally	540.2	906.6	434.1
Funds utilized for investment activities:			
Capital expenditures	(320.6)	(308.5)	(327.1)
Additions to other noncurrent assets	(25.7)	(51.8)	(78.0)
Noncurrent assets of acquired companies:			
Property, plant and equipment	(27.1)	(333.1)	(67.6)
Intangibles	(26.1)	(272.9)	(86.6)
Other assets		(151.3)	
	(399.5)	(1,117.6)	(559.3)
Net funds generated (used) before financing activities	140.7	(211.0)	(125.2)
Funds from (used for) financing activities:			
Issuance of long-term debt	121.5	454.5	219.3
Long-term debt of acquired companies	11.1	155.3	5.2
Retirement of long-term debt	(179.8)	(282.8)	(132.5)
Increase (decrease) in notes payable	29.8	10.8	(6.0)
Income tax cash flows from tax lease	(21.4)	(15.0)	17.0
Issuance (purchase) of common stock, net	(34.4)	(2.0)	5.2
Cash dividends	(83.3)	(73.0)	(65.8)
	(156.5)	247.8	42.4
Increase (decrease) in cash and equivalents	$ (15.8)	$ 36.8	$ (82.8)

Notes to Consolidated Financial Statements are an integral part of this statement.

Over the past three years, Pillsbury has invested $2.08 billion, increasing total invested capital by 45 percent, to build and diversify its Foods and Restaurants businesses. While Fiscal 1986 and 1985 were years of major expansion, Fiscal 1987 was a year of modest growth and consolidation of past investments. With strong cash flow from operations supplemented by funds from the disposal of underperforming assets, the Company was able to finance its capital and acquisition program, increase dividends to shareholders and reduce long-term debt by $28 million.

FUNDS FROM OPERATIONS increased 6 percent to $457 million despite a 13 percent decline in net earnings. Depreciation and amortization on the Company's expanded asset base exceeded net earnings for the first time. Deferred taxes also increased significantly due to timing differences in depreciation and amortization of recently acquired assets. Over the past three years, the Company has generated $1.25 billion in funds from operations, including $582 million from net earnings. This has funded 60 percent of its investment spending over the period.

Funds Provided from Operations
(Millions)



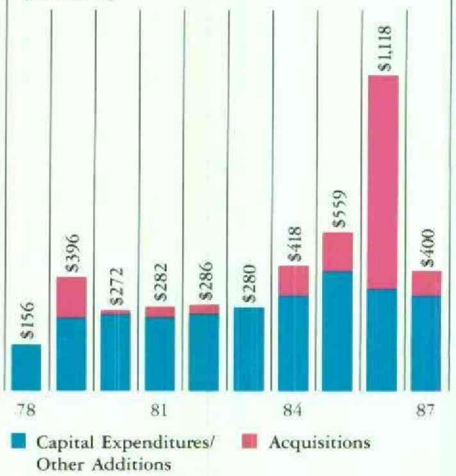
WORKING CAPITAL EMPLOYED required an additional $46 million in Fiscal 1987, after a significant reduction the year before. Higher inventories were primarily responsible.

FUNDS FROM CONVERSION OF ASSETS represent a key aspect of Pillsbury's financial strength, as the Company's strategy embodies the sale or conversion of inefficient properties and businesses which no longer meet its growth objectives. During the year, $129 million was generated from the sale of a business interest in Australia, a flour mill in Kansas and a number of low-returning restaurant properties. In Fiscal 1986, more than $300 million was raised, primarily through the sale of Burger King real estate to a master limited partnership, the sale of the 54-unit Chart House restaurant chain, which had been acquired with Diversifoods, and the sale of 204 established Burger King stores to franchisees.

FUNDS GENERATED INTERNALLY from operations, asset sales and changes in working capital have met 90 percent of Pillsbury's investment needs since the beginning of Fiscal 1985 and, in Fiscal 1987, exceeded investment spending by $141 million.

INVESTMENT ACTIVITIES include internal investments, principally capital expenditures needed to modernize facilities, expand production and build new restaurants, as well as acquisitions to diversify or complement existing businesses or enter new strategic markets. Investment spending of $400 million in Fiscal 1987 was the lowest in four years and compared with a record $1.12 billion in Fiscal 1986 when Diversifoods, a restaurant holding company, and Jeno's, a manufacturer

New Investments
(Millions)



of frozen pizza, were acquired. Acquisitions in Fiscal 1987 included previously franchised Burger King operations in the U.S. and Europe, the buyout of a large Godfather's Pizza franchisee, and several Foods operations in Europe. During the year, 60 percent of total investment spending was for Restaurants versus 74 percent in Fiscal 1986.

FINANCING ACTIVITIES include the issuance and retirement of debt, the payment of dividends and the repurchase of Pillsbury common stock to meet employee benefit plans. While Fiscal 1986 required the issuance or assumption of more than $600 million in debt, Pillsbury did little long-term financing in Fiscal 1987. Cash dividends were increased by $10 million, bringing to $222 million the funds paid to shareholders in the past three years. Long-term, Pillsbury seeks to pay out approximately one-third of its net earnings in annual cash dividends. While the actual payout has been higher than that in recent years, the payout over the past three years has averaged 18 percent of operating cash flow.

The Pillsbury Company and Subsidiaries
Consolidated Balance Sheet

	May 31 1987	May 31 1986
	(In millions)	
Assets		
Current assets:		
Cash and equivalents	$ 80.7	$ 96.5
Receivables	522.7	492.7
Inventories	572.2	490.2
Advances on purchases	15.0	30.0
Prepaid expenses	83.0	49.7
Total current assets	1,273.6	1,159.1
Property, plant and equipment	1,834.7	1,763.2
Net investment in direct financing leases	200.0	193.3
Intangibles	436.8	421.6
Other assets	108.0	121.6
	$3,853.1	$3,658.8
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable	$ 51.9	$ 22.1
Long-term debt, current portion	44.9	52.1
Accounts and drafts payable	620.7	513.6
Advances on sales	113.7	91.4
Employee compensation	121.7	118.6
Taxes on income		49.8
Other liabilities	289.7	287.9
Total current liabilities	1,242.6	1,135.5
Long-term debt, noncurrent portion	951.8	972.9
Deferred taxes on income	235.4	202.5
Other deferrals	44.4	33.7
Shareholders' equity:		
Preferred stock, without par value, authorized 500,000 shares, no shares issued		
Common stock, without par value, authorized 200,000,000 shares, issued 88,084,294 shares and 87,997,718 shares, respectively	370.4	325.2
Common stock in treasury at cost, 1,907,705 shares and 1,068,388 shares, respectively	(58.7)	(24.4)
Accumulated earnings	1,103.7	1,050.4
Accumulated foreign currency translation	(36.5)	(37.0)
Total shareholders' equity	1,378.9	1,314.2
	$3,853.1	$3,658.8

Notes to Consolidated Financial Statements are an integral part of this statement.

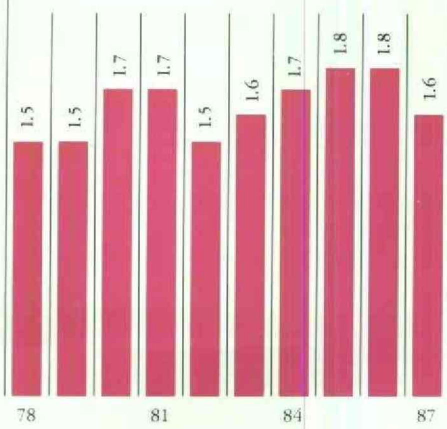
Pillsbury's Balance Sheet reflects the significant leverage undertaken in Fiscal 1986 to accommodate the largest acquisition and capital spending program in the Company's history. Financial strength and flexibility improved in Fiscal 1987 as long-term debt was reduced 3 percent and shareholders' equity increased 5 percent.

CURRENT ASSETS rose 10 percent, while fixed assets grew by 4 percent. Although management strives to reduce working capital to the minimum level necessary to operate the business, several strategic decisions required increases in current assets during the year. Inventories rose 17 percent as the Company endeavored to become a year-round supplier of seasonal products, hedged against rising costs in some markets, and expanded a Company distribution network in Ice Cream. Prepaid expenses also rose as tax considerations favored the advance funding of certain employee benefits.

Despite these increases, the Company maintained a current ratio (of current assets to current liabilities) of 1-to-1 for the second year in a row. The current ratio has declined in recent years as the Company's business has shifted toward Restaurants which typically require few receivables and low inventories.

Asset turnover, a measure of sales in relation to total assets, declined to 1.6 from a high of 1.8 in each of the prior two years. In part, this reflects the slower growth in Restaurants sales at a time of rising construction costs. It also underscores management's decision to prune low-returning assets throughout the Company.

Asset Turnover



CURRENT LIABILITIES rose by 9 percent as trade accounts payable expanded to cover higher inventory levels, and as the Company utilized $30 million in commercial paper (included in notes payable) at year-end to meet its short-term funding requirements.

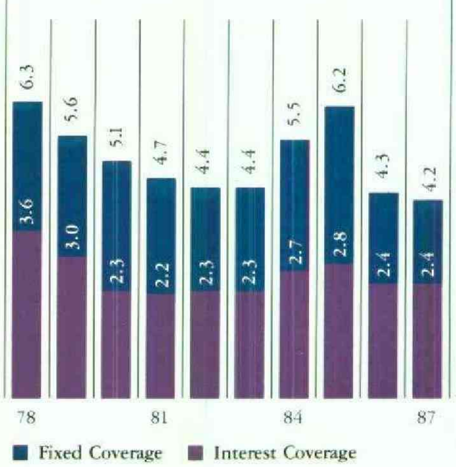
LONG-TERM DEBT, including the current portion, declined to $997 million from $1.03 billion a year earlier. With higher cash flow and reduced new investments during the year, the Company took advantage of opportunities to restructure its debt by prepaying more than $110 million in high coupon notes and debentures. At year-end, long-term debt-to-total capitalization declined to 42 percent from 43.8 percent in Fiscal 1986.

DEFERRED TAXES increased 16 percent, primarily due to the use of accelerated depreciation for tax purposes. Future tax payments, however, may be substantially less as the Federal Tax Reform Act of 1986 reduces the rate at which those taxes are expected to be paid.

SHAREHOLDERS' EQUITY rose 5 percent during the year and has increased at a compound annual rate of 13 percent over the past decade, a rate which parallels the growth in sales.

LIQUIDITY, in management's judgment, remains adequate to meet future financing requirements. Although the Company's pretax fixed coverage ratio, which measures the ability to pay interest and rental charges, remained at 2.4 and pretax interest coverage declined to a ten-year low of 4.2, the Company has an "A" credit rating on both its long-term and short-term financing. With more than $500 million in various bank credit lines, strong cash flow from operations and the potential for further asset sales, the Company believes it has the ability to meet projected internal funding requirements, including capital expenditures of approximately $350 million in Fiscal 1988, as well as take advantage of other opportunities that might arise.

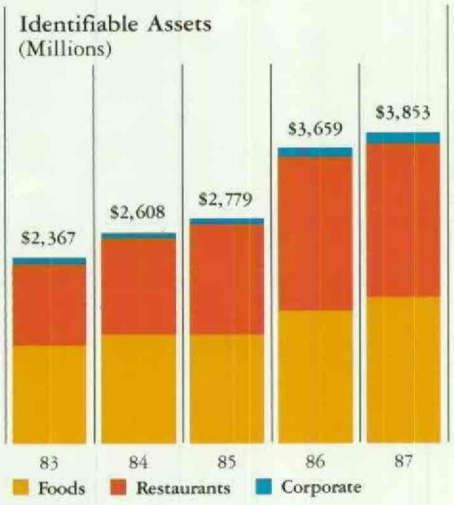
Coverage Ratios



Segment Analysis

Pillsbury is a diversified international food company operating in the packaged consumer Foods and Restaurants segments of the industry. The Company's strategy is to stay in the foods business, to maintain a reasonable balance between Foods and Restaurants and to develop a diversified portfolio of well positioned consumer brands and restaurant concepts. By building on its technical, manufacturing and marketing strengths, the Company intends to grow through internal development and acquisitions, while improving returns by divesting low-return businesses and increasing productivity.

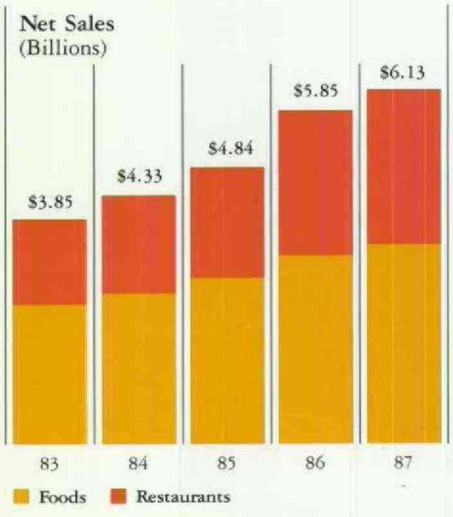
During the year, Foods contributed 55 percent of total sales and 53 percent of operating profit, and accounted for 47 percent of identifiable assets. While Foods has always generated more than half of total sales, Fiscal 1987 was the first time in four years that its operating profit exceeded that of Restaurants.



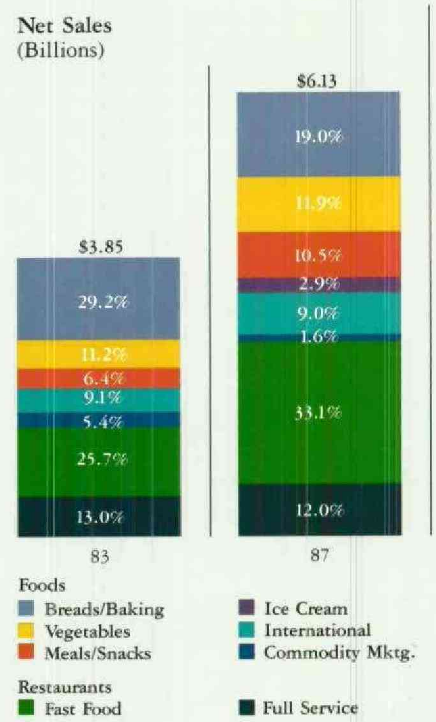
Pillsbury's growth in recent years has mirrored the rapid expansion of its Restaurants business. Supported by more than $1 billion in capital expenditures since Fiscal 1982 and another $500 million in acquisitions, Restaurants has grown twice as fast as Foods in terms of sales and 70 percent faster in terms of operating profit. Although that rate of growth slowed appreciably in Fiscal 1987 as Restaurants posted its first decline in operating profit, a number of steps were taken to restructure the business and remove underperforming assets.

The following summarizes the Company's results and activities for the past two years by business segment.

NET SALES of $6.13 billion were 5 percent higher than in Fiscal 1986 and 27 percent above those of Fiscal 1985. Restaurants sales grew 35 percent over the two years, adding $710 million to sales, while Foods expanded by 21 percent, increasing sales by $570 million.



Foods sales rose 6 percent in Fiscal 1987 on a similar increase in volume. Microwave products, ice cream, frozen fish, dessert and baking mixes and prepared dough products all contributed to the volume growth. During Fiscal 1986, volume grew by 16 percent, with half of the increase coming from the acquisition of vegetable and frozen pizza businesses. International Foods sales have grown by 50 percent in the past two years due to favorable foreign exchange rates, acquisitions in Europe and higher exports of U.S. products. Overall, Foods prices were flat in Fiscal 1987 and rose 1.1 percent in Fiscal 1986.



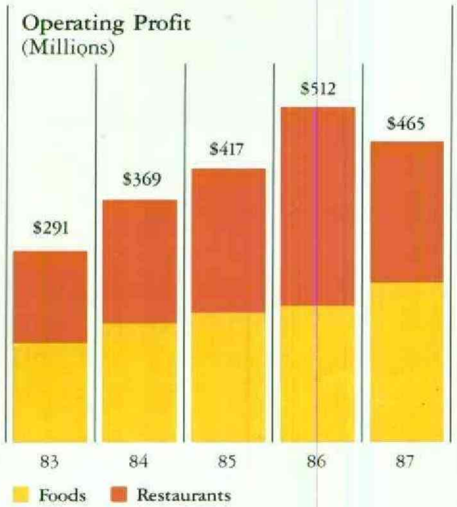
Restaurants sales rose 4 percent in Fiscal 1987 on top of a 30 percent increase in Fiscal 1986. More than half of the Fiscal 1986 increase was attributable to the acquisition of Diversifoods Inc., which operated or franchised nearly 1,000 Burger King and Godfather's Pizza restaurants. Over the past two years, Pillsbury has built 200 Company-operated restaurants – 120 Burger King, 30 Bennigan's and 13 Bay Street units representing the largest concepts. An additional 900 Burger King restaurants have been built by franchisees who pay 3.5 percent of gross sales as royalties. Most also buy food and supplies through Distron, the Company's procurement and distribution division. Burger King raised prices 2.7 percent at Company-operated restaurants on April 1, 1987, its first price increase in 16 months. Overall, higher prices accounted for about 3.5 percent of Restaurants sales in each of the past two years.

OPERATING PROFIT declined 9 percent during the year to $465 million, but was still 12 percent higher than in Fiscal 1985. Profit trends, however, were distorted by restructuring charges of $36 million in Fiscal 1987 and asset redeployment gains of $18 million and $22 million in the prior two years.

Restructuring charges in Fiscal 1987 included provisions for the sale, closure or consolidation of several Foods facilities, the conversion of selected Häagen-Dazs Ice Cream Shoppes from franchised to licensed operations, the sale of approximately 40 full service restaurants and staff reductions at Restaurants headquarters in Miami and Dallas. In Fiscal 1986, a gain on the sale of 128 franchised Burger King restaurant properties to a master limited partnership was partially offset by provisions to close the J.J. Muggs restaurant chain and restructure portions of the Foods business. Excluding these unusual items, operating profit of $501 million was up slightly from Fiscal 1986 and was $106 million, or 27 percent higher, than in Fiscal 1985.

Foods has had back-to-back years of exceptional profit growth. Operating profit rose 19 percent in Fiscal 1987 and has increased 25 percent in the past two years. Excluding restructuring charges and a gain in Fiscal 1985 from the sale of the Company's pasta business, operating profit has risen by more than 50 percent over the past two years. Much of that improvement is attributable to a turnaround in Commodity Marketing, which became a meaningful profit contributor in Fiscal 1987 after two successive years of losses. International operations also improved profits significantly. Low ingredient costs; several recent acquisitions; volume momentum, especially in new higher-margin products, and a stringent effort to improve productivity and reduce overhead costs all contributed to the profit growth. However, Ice Cream profits fell sharply in Fiscal 1987.

Operating profit for Restaurants fell 28 percent in Fiscal 1987 and was essentially unchanged from Fiscal 1985. Restructuring charges in Fiscal 1987 against a gain in the prior year from the sale of property to a master limited partnership accounted for more than half of the profit decline. Investment spending to develop new restaurant concepts, declines in earnings at Steak and Ale and Distron, and large prior-year refranchising gains at Burger King accounted for the remaining shortfall in profit. Store operating profit at Company-operated Burger King restaurants rose slightly for the first time in two years, while Bennigan's posted higher profits from unit growth.



GENERAL CORPORATE EXPENSE of $17.2 million in Fiscal 1987 was $20 million below that of Fiscal 1986 and $6 million below Fiscal 1985 expense. An $11 million gain on the sale of a joint venture in Australia was included in Fiscal 1987, while the previous year included abnormally high charges for insurance, improved management information systems and a corporate headquarters early retirement program. Management has undertaken a major effort to reduce corporate overhead and administrative costs throughout the Company and began to see the benefit of those efforts in the past year.

CAPITAL EXPENDITURES of $321 million were 4 percent higher than in Fiscal 1986, but did not quite reach the record of Fiscal 1985. Restaurants spending was reduced 13 percent to $195 million, the lowest level in four years. In an effort to improve returns on new investments, the Company temporarily reduced its expansion rate for new restaurants – adding one-third fewer units during the year than in the previous year. Restaurants spending in Fiscal 1988 is expected to be held at last year's level. Expenditures in Foods were increased 65 percent to a record $125 million as the Company upgraded its computer and research facilities, added production lines for the new Häagen-Dazs Ice Cream Bar and invested in technology to reduce costs and add capacity for new products.

Summary by Industry Segment	Year ended May 31		
	1987	1986	1985
		(In millions)	
Net sales:			
Foods	$3,363.4	$3,184.7	$2,790.1
Restaurants	2,764.4	2,663.2	2,053.3
Total	6,127.8	5,847.9	4,843.4
Operating profit:			
Foods	246.1	206.9	196.6
Restaurants	219.2	304.7	220.0
Total	465.3	511.6	416.6
General corporate expense, net	(17.2)	(37.2)	(23.4)
Interest expense, net	(95.6)	(97.3)	(53.0)
Earnings before taxes on income	352.5	377.1	340.2
Identifiable assets:			
Foods	1,821.5	1,659.9	1,345.8
Restaurants	1,875.3	1,841.1	1,316.1
Corporate	156.3	157.8	116.6
Total	3,853.1	3,658.8	2,778.5
Capital expenditures:			
Foods	124.7	75.5	81.7
Restaurants	195.3	225.3	240.2
Corporate	.6	7.7	5.2
Total	320.6	308.5	327.1
Depreciation expense:			
Foods	81.4	68.9	56.7
Restaurants	113.1	99.9	71.7
Corporate	3.1	6.5	5.5
Total	197.6	175.3	133.9
Foreign operations included in the above categories are as follows:			
Net sales	617.4	481.2	401.2
Operating profit	28.3	29.1	22.7
Identifiable assets	462.8	347.0	264.1
Capital expenditures	53.4	30.8	17.4
Depreciation expense	17.2	11.7	10.7

Effective June 1, 1986, the Company combined its downsized Commodity Marketing segment with Consumer Foods to form the Foods segment. Prior years' amounts have been reclassified to conform to the Fiscal 1987 segment presentation.

Operating profit of reportable segments represents net sales less operating expenses. Operating expenses include gain or loss on disposal of, or provision for writedown of, identifiable assets as well as all other expenses related to segment operations. General corporate expense includes unallocated corporate items and equity in net earnings (losses) of unconsolidated affiliates. Foreign operations exclude export sales. See footnotes to Summary by Quarter on the following page.

Summary by Quarter (Unaudited)

	Net sales	Gross margin	Earnings before taxes on income	Net earnings	Per share* Net earnings	Per share* Cash dividends	Per share* Market price High	Per share* Market price Low	Per share* Market price Close
	(In millions)								
Fiscal 1987:									
First quarter	$1,382.8	$ 397.1	$ 92.1	$ 47.9	$ .55	$.215	$41¼	$34¼	$36¾
Second quarter	1,688.4	533.4	113.3	53.9	.62	.250	38½	32⅜	38⅛
Third quarter(a)	1,526.9	451.0	93.6	48.5	.56	.250	45⅛	33⅛	43⅞
Fourth quarter(b)	1,529.7	454.1	53.5	31.6	.37	.250	46⅛	35⅞	38¾
Annual	6,127.8	1,835.6	352.5	181.9	2.10	.965			
Fiscal 1986:									
First quarter	1,263.3	347.1	82.3	44.2	.51	.195	28⅜	24	25⅞
Second quarter	1,583.0	482.1	105.1	56.6	.65	.215	31¾	25⅝	30½
Third quarter(c)	1,456.7	430.9	92.5	55.4	.63	.215	35½	29¼	34⅝
Fourth quarter(d)	1,544.9	485.2	97.2	51.9	.59	.215	40⅜	32⅞	40⅛
Annual	5,847.9	1,745.3	377.1	208.1	2.38	.840			
Fiscal 1985:									
First quarter	1,057.1	278.8	70.8	38.9	.45	.175	20¼	17¼	19
Second quarter(e)	1,304.0	387.5	113.0	66.1	.76	.195	22⅜	18⅜	20⅛
Third quarter	1,213.2	344.9	68.7	39.5	.46	.195	23¼	19⅜	23¼
Fourth quarter	1,269.1	366.7	87.7	47.3	.54	.195	27½	22⅜	27⅜
Annual	4,843.4	1,377.9	340.2	191.8	2.21	.760			

*Per share amounts have been restated to reflect a two-for-one stock split in November 1986.

Earnings before taxes on income include:

(a) $15.8 million gain ($5.3 million Foods and $10.5 million General corporate expense, net) from the sales of a Kansas flour mill and a joint-venture interest in an Australian food company [$9.7 million net earnings – 11 cents per share].

(b) $44.3 million restructuring charge ($23.8 million Foods, $17.0 million Restaurants and $3.5 million General corporate expense, net) for manufacturing plant consolidations, conversion of certain franchised Häagen-Dazs Ice Cream Shoppes to licensed operations, sale of selected low-performing restaurants and a reduction of headquarters staff positions in Restaurants [$21.6 million net earnings – 25 cents per share].

(c) $41.0 million gain (Restaurants) from the sale of 128 Burger King real estate properties to a master limited partnership [$28.4 million net earnings – 32 cents per share].

$22.5 million provision ($12.6 million Foods, $8.8 million Restaurants and $1.1 million General corporate expense, net) to discontinue the JJ. Muggs Restaurant concept, reflect a further impairment of the barge transportation business and recognize a headquarters early retirement program [$12.3 million net earnings – 14 cents per share].

(d) $10.2 million benefit (Restaurants) from the lengthening of depreciable lives of Burger King restaurant properties, effective June 1, 1985 [$5.2 million net earnings – 6 cents per share].

$1.3 million loss (Foods) on the sale of Apollo Foods and Pioneer Rice [$1.2 million net earnings – 1 cent per share].

(e) $38.9 million gain (Foods) from the sale of the American Beauty pasta division [$24.3 million net earnings – 28 cents per share].

$16.9 million provision (Foods) to reflect a permanent impairment of the barge transportation business and restructure certain other businesses [$8.6 million net earnings – 10 cents per share].

1. Accounting policies

Consolidation
The Consolidated Financial Statements include the accounts of the parent company and its majority-owned subsidiaries after elimination of intercompany balances and transactions. The fiscal year of foreign subsidiaries generally ends on April 30 to facilitate timely reporting.

Sales
Net sales include trading margins, rather than total sales, from merchandising grain, feed ingredients and export flour. Restaurants sales include franchise fees, royalties and operating lease rentals.

Pensions
The Company adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," effective June 1, 1985.

Taxes on income
Investment tax credits were reflected as reductions in federal income taxes in the year eligible purchases were placed in service. The loss of investment tax credits retroactive to January 1, 1986, under the Federal Tax Reform Act of 1986 was recorded as an increase in Fiscal 1987 taxes on income. At May 31, 1987, federal taxes were not provided on approximately $104 million of unremitted earnings of foreign subsidiaries which management considers to be invested indefinitely.

Earnings per share
Per share data and shares outstanding have been restated to reflect a two-for-one stock split effected by means of a 100 percent stock dividend in November 1986. Net earnings per share are 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.

Foreign exchange
Foreign currency balance sheets are translated at the end-of-period exchange rates and earnings statements are translated at the average exchange rates for each period. Local currencies, except in Mexico, have been determined to be the functional currencies. The resulting translation gains or losses are recorded in the "Accumulated Foreign Currency Translation" caption within shareholders' equity. Because of its highly inflationary economy, Mexican translation adjustments are recognized immediately in earnings.

Inventories
Grain inventories, including open grain contracts, are stated at May 31 market prices. Other domestic inventories are valued at the lower of cost, determined on a last-in, first-out (LIFO) method, or market. If the FIFO method had been used at May 31, 1987 and 1986, inventories would have been lower by $5.2 million and $10.8 million, respectively.

Property, plant and equipment
Owned property, plant and equipment is stated at cost. Depreciation is computed using the straight-line method for financial statement purposes and accelerated methods for tax purposes. Assets under capital leases are recorded at the present value of future minimum lease payments and are depreciated using the straight-line method over the related lease terms.

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 purchased businesses. Costs are amortized evenly over estimated useful lives or periods benefited (not in excess of 40 years).

2. Industry segment data

A summary by industry segment is included on page 34.

3. Interim results of operations (unaudited)

A summary by quarter is included on page 35.

4. Shareholders' equity

	Shares of common stock outstanding (In millions)	Common stock	Treasury stock	Accumulated earnings (In millions)	Accumulated foreign currency translation	Total
Balances at May 31, 1984	43.2	$306.2	$(11.7)	$ 792.4	$(40.7)	$1,046.2
Net earnings				191.8		191.8
Translation adjustment					(12.0)	(12.0)
Cash dividends				(65.8)		(65.8)
Purchase of treasury stock	(.6)		(22.6)			(22.6)
Stock issued for:						
Conversion of subordinated debentures and 8⅜% notes	.5	18.6				18.6
Stock option and performance unit plans	.3	.1	11.0	(1.9)		9.2
Balances at May 31, 1985	43.4	324.9	(23.3)	916.5	(52.7)	1,165.4
Net earnings				208.1		208.1
Translation adjustment					15.7	15.7
Cash dividends				(73.0)		(73.0)
Purchase of treasury stock	(.2)		(14.0)			(14.0)
Stock issued for:						
Conversion of subordinated debentures		.2				.2
Stock option and performance unit plans	.3	.1	12.9	(1.2)		11.8
Balances at May 31, 1986	43.5	325.2	(24.4)	1,050.4	(37.0)	1,314.2
Stock split effected by means of a 100% stock dividend	43.5	44.0		(44.0)		
Net earnings				181.9		181.9
Translation adjustment					.5	.5
Cash dividends				(83.3)		(83.3)
Purchase of treasury stock	(1.2)		(43.5)			(43.5)
Stock issued for:						
Conversion of subordinated debentures	.1	.9				.9
Stock option and performance unit plans	.3	.3	9.2	(1.3)		8.2
Balances at May 31, 1987	86.2	$370.4	$(58.7)	$1,103.7	$(36.5)	$1,378.9

At May 31, 1987, there were outstanding 43,088,295 rights to purchase Series C Junior participating preferred stock. The rights were issued as a dividend on January 21, 1986, at the rate of one right for each outstanding share of common stock. As a result of the November 1986 two-for-one common stock split, each share of common stock has, since then, been accompanied by one-half of a right. Each full right entitles the holder to purchase from the Company a unit (one two-hundredth of a share) of Series C Junior participating preferred stock without par value at $200 per unit. The rights are not exercisable or transferable apart from the common stock until ten days after a person or group has acquired 20 percent or more, or makes a tender offer for 30 percent or more, of the Company's common stock.

The Series C Junior participating preferred stock will entitle the holder, under certain circumstances (a merger, acquisition of 50 percent or more of the common stock of the Company by an acquiring person or sale of 50 percent or more of the Company's assets or earning power), to acquire, at half their value, either common stock or other securities of the Company or common stock of the acquiring person. Any such event would also cause any rights owned beneficially by the acquiring person or its affiliates to become null and void. The rights expire on January 21, 1996, and are redeemable at one cent per right for a limited time after an acquiring person has acquired 20 percent or more of the Company's common stock.

5. Acquisitions and dispositions

In February 1986, the Company sold 128 Burger King real estate properties to a master limited partnership for $84.3 million in cash resulting in a gain of $41.0 million ($28.4 million net earnings – 32 cents per share).

Effective December 9, 1985, the Company purchased the net assets of Jeno's Inc., a producer of frozen pizzas and hot snack products, for $147.2 million in cash and assumed debt. The acquisition, accounted for as a purchase, included $46.1 million of intangibles.

Effective July 1, 1985, the Company acquired the outstanding common stock of Diversifoods Inc. for $392 million in cash. Diversifoods, a broad-based restaurant management company, was the largest franchisee of Burger King restaurants. The acquisition, accounted for as a purchase, included $211.9 million of intangibles and $120.4 million of assets held for disposal, primarily the Chart House restaurant concept which was sold for $83.0 million in November 1985.

Effective November 4, 1984, the Company purchased the net assets of Van de Kamp's, a producer of frozen fish products and ethnic entrees, for $100.5 million in cash. The acquisition, accounted for as a purchase, included $64.5 million of intangibles.

In November 1984, the Company sold the identifiable assets of the American Beauty pasta division for $56 million in cash resulting in a gain of $38.9 million ($24.3 million net earnings – 28 cents per share).

In addition, during the three-year period ended May 31, 1987, the Company acquired or disposed of other businesses, none of which were material.

6. Interest expense, net

	Year ended May 31		
	1987	1986	1985
		(In millions)	
Interest expense on:			
Long-term obligations	$103.9	$108.7	$ 62.3
Capital lease obligations	8.5	8.6	5.9
Short-term obligations	20.9	20.4	24.0
Capitalized interest	(3.4)	(3.9)	(2.4)
Interest income	(8.3)	(11.1)	(14.3)
Amortization of unearned income on direct financing leases	(26.0)	(25.4)	(22.5)
	$ 95.6	$ 97.3	$ 53.0

7. Taxes on income

	Year ended May 31		
	1987	1986	1985
		(In millions)	
Earnings before taxes on income consists of:			
Domestic	$329.1	$349.6	$318.8
Foreign	23.4	27.5	21.4
	$352.5	$377.1	$340.2
Taxes on income consists of:			
Current:			
Federal	$ 76.9	$127.4	$113.8
Investment tax credit	2.7	(8.2)	(9.0)
	79.6	119.2	104.8
State	11.2	19.4	16.8
Foreign	7.4	6.9	1.5
	98.2	145.5	123.1
Deferred:			
Federal	63.1	16.8	22.3
State	8.1	2.7	2.4
Foreign	1.2	4.0	.6
	72.4	23.5	25.3
	$170.6	$169.0	$148.4

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	3.0	3.2	3.1
Investment tax credit	.8	(2.2)	(2.6)
Other, net	(1.4)	(2.2)	(2.9)
	48.4%	44.8%	43.6%

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:

Excess of tax over book depreciation	$60.5	$32.0	$38.3
Change in reserves not deductible currently for taxes	8.6	(7.2)	(11.6)
Installment sales	(1.9)	1.2	(5.3)
Interest on zero coupon notes		(1.0)	7.0
Other, net	5.2	(1.5)	(3.1)
	$72.4	$23.5	$25.3

8. Current assets

	May 31 1987	May 31 1986
	(In millions)	
Receivables:		
Receivables	$543.1	$508.0
Less allowance	(20.4)	(15.3)
	$522.7	$492.7
Inventories:		
Finished products	$333.8	$306.7
Raw materials, containers and supplies	221.1	170.3
Grain	17.3	13.2
	$572.2	$490.2

9. Noncurrent assets

	May 31 1987	May 31 1986
	(In millions)	
Intangibles:		
Intangibles	$ 501.5	$ 464.2
Less accumulated amortization	(64.7)	(42.6)
	$ 436.8	$ 421.6
Property, plant and equipment:		
Land and improvements	$ 271.5	$ 245.6
Buildings and improvements	1,352.0	1,324.5
Machinery and equipment	1,144.4	975.7
	2,767.9	2,545.8
Less accumulated depreciation	(933.2)	(782.6)
	$1,834.7	$1,763.2

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

	Assets under capital leases		Assets leased to restaurant franchisees	
	1987	1986	1987	1986
	(In millions)			
Land and improvements			$ 86.2	$ 85.5
Buildings and improvements	$ 67.4	$ 68.7	67.4	61.1
Machinery and equipment	13.4	20.9	4.3	4.0
	80.8	89.6	157.9	150.6
Less accumulated depreciation	(36.7)	(38.0)	(35.5)	(31.2)
	$ 44.1	$ 51.6	$122.4	$119.4

10. Long-term debt

	May 31 1987	May 31 1986
	(In millions)	
11⅛% sinking fund debentures due 2015	$128.4	$ 150.0
10¼% Euro bonds due 1993	100.0	100.0
6⅝% Deutsche Mark bonds due 1992	74.3	75.0
12% extendible notes due 1999	100.0	100.0
11½% notes due 1995	100.0	100.0
14% notes due 1991	50.0	50.0
Commercial paper supported by an unused long-term revolving credit agreement	100.0	
Restaurant subsidiaries installment notes at 11½% weighted average interest rate:		
Unsecured	193.1	245.5
Secured (real estate of $17.5 million pledged as collateral)	8.0	53.0
Other notes at 6⅝% to 12⅝% (real estate of $136.2 million pledged as collateral)	72.2	74.3
Capital lease obligations	70.7	77.2
	996.7	1,025.0
Less current portion	(44.9)	(52.1)
	$951.8	$ 972.9

Certain debt agreements contain restrictions relating to the payment of dividends and the purchase by the Company of its common stock. Under the most restrictive of these provisions, approximately $225 million of accumulated earnings at May 31, 1987, was available for dividends and the purchase of common stock of the Company.

Maturities of long-term debt, excluding capital lease obligations, for the five fiscal years subsequent to May 31, 1987, are: 1988 ($38.5 million); 1989 ($34.4 million); 1990 ($27.7 million); 1991 ($83.3 million); and 1992 ($31.3 million).

11. Financing commitments

Notes payable at May 31, 1987, include $30.4 million of commercial paper and $21.5 million of foreign subsidiaries' notes. Notes payable at May 31, 1986 and 1985, consist only of foreign subsidiaries' notes.

Selected information on notes payable is as follows:

	1987	1986	1985
		(In millions)	
At May 31:			
Amount	$ 51.9	$ 22.1	$ 11.3
Interest rate	8.4%	10.8%	11.5%
Largest month-end balance	$383.1	$314.5	$370.2
Weighted average balance	253.9	179.8	177.4
Average interest rate for year	6.7%	8.0%	10.8%

Bank lines of credit, which 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 on borrowings is at prevailing market rates. At May 31, 1987, the Company had bank lines of credit of $204.5 million against which $6.8 million of foreign subsidiaries' borrowings were outstanding. Certain bank lines require compensating balances which are not legally restricted.

In addition, the Company has two seven-year revolving credit agreements with several banks totaling $300 million. No borrowings were outstanding under these agreements at May 31, 1987. Interest on borrowings is at the prevailing prime rate or other market rates. The Company pays commitment fees on the unused portions of the commitments.

12. Other commitments and contingent liabilities

The Company and certain of its subsidiaries are parties to legal proceedings and guarantees of debt arising in the conduct of business. In addition, the Company and certain of its subsidiaries have sold, with limited recourse, notes receivable with remaining uncollected balances at May 31, 1987 and 1986, of $44.3 million and $53.1 million, respectively. In the opinion of management, disposition of these matters will not materially affect the Company's consolidated financial position.

13. Investments as lessor

Restaurant subsidiaries lease 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 receipts during the fiscal years ending May 31:	Direct financing leases	Operating leases
	(In millions)	
1988	$ 31.7	$ 30.8
1989	32.6	30.6
1990	32.9	28.9
1991	32.7	28.6
1992	32.0	28.1
Later	313.6	278.9
	$475.5	$425.9

Net investment in direct financing leases at May 31:	1987	1986
	(In millions)	
Minimum future lease receipts	$475.5	$459.9
Allowance for uncollectables	(4.4)	(4.4)
Estimated unguaranteed residual value	5.0	3.8
Unearned amount representing interest	(271.0)	(261.4)
Net investment	205.1	197.9
Current portion included in receivables	(5.1)	(4.6)
Net investment in direct financing leases	$200.0	$193.3

	Year ended May 31		
Rental income:	1987	1986	1985
		(In millions)	
Minimum rental income	$31.8	$31.7	$26.6
Contingent rental income (a)	30.1	32.3	32.8
	$61.9	$64.0	$59.4

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

14. 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)	
1988	$ 14.2	$ 74.3
1989	13.2	68.1
1990	12.3	59.7
1991	11.8	54.1
1992	11.7	49.5
Later	62.7	489.9
Total minimum obligations (b)	125.9	795.6
Executory costs	(1.0)	(4.2)
Net minimum obligations	124.9	$791.4(c)
Amount representing interest	(54.2)	
Present value of net minimum obligations	$ 70.7	
Current portion	$ 6.4	

(a) Does not include obligations under term freight agreements for 1,500 barge loads in Fiscal 1988, decreasing to 1,150; 660 and 385 barge loads in Fiscal 1989, 1990 and 1991, respectively.
(b) Minimum lease obligations have not been reduced by minimum sublease rentals. In addition to minimum obligations, contingent rentals may be paid under certain restaurant and grain facility leases as a percentage of sales and volume, respectively.
(c) The present value of the net minimum future obligations under operating leases, calculated using the Company's incremental borrowing rate at the inception of the leases, is $387.2 million.

	Year ended May 31		
Rental expense:	1987	1986	1985
		(In millions)	
Minimum rental expense (a)	$110.6	$112.2	$89.0
Contingent rental expense (b)	13.0	12.0	9.1
Transportation equipment sublease income	(6.9)	(5.9)	(6.7)
	$116.7	$118.3	$91.4

(a) Includes rentals under leases with terms of one year or less. Payments under term freight agreements of $14.9 million, $15.6 million, and $21.3 million for Fiscal 1987, 1986 and 1985, respectively, are not included.
(b) Includes contingent rental expense under both capital and operating leases.

15. Stock options

Under the Company's 1982 Stock Option Plan, options to purchase in the aggregate 3,000,000 shares of the Company's common stock may be granted to officers and key employees. Options outstanding under this and predecessor option plans are either nonqualified or incentive stock options granted at 100 percent of the fair market value at date of grant and expire ten years thereafter. Nonqualified stock options become exercisable in cumulative annual installments of 25 or 33 percent beginning one year after date of grant and incentive stock options become fully exercisable one year after date of grant. Shares and price ranges have been restated to reflect a two-for-one stock split in November 1986.

	Option shares		
	Outstanding	Exercisable	Price range
Balances at May 31, 1984	1,563,514	787,314	$ 4-19
Granted	431,000		19-24
Became exercisable		632,900	9-18
Exercised	(513,816)	(513,816)	4-18
Cancelled	(90,100)	(62,300)	
Balances at May 31, 1985	1,390,598	844,098	5-24
Granted	551,500		27-38
Became exercisable		510,724	9-24
Exercised	(580,788)	(580,788)	5-24
Cancelled	(84,042)	(51,090)	
Balances at May 31, 1986	1,277,268	722,944	5-38
Granted	461,200		35-44
Became exercisable		490,960	11-38
Exercised	(287,876)	(287,876)	5-27
Cancelled	(55,740)	(10,100)	
Balances at May 31, 1987	1,394,852	915,928	5-44

An additional 1,215,582 shares are available for grant through September 15, 1987. At May 31, 1987, 2,610,434 shares of common stock were reserved for options. Option shares outstanding at May 31, 1987, were granted in Fiscal 1983 and prior years (263,672); 1984 (97,600); 1985 (202,514); 1986 (403,266) and 1987 (427,800). Unexercisable option shares outstanding at May 31, 1987, become exercisable in Fiscal 1988 (419,480); 1989 (29,719); 1990 (20,708) and 1991 (9,017).

16. Compensation plans

Certain employees of the Company participate in compensation programs which include a base salary plus incentive payments based on the level of operating earnings. Additionally, under a 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 Company's cumulative annual growth in earnings per share over the four-year period following the award is the basis for payment. Awards of 313,604 performance units were outstanding at May 31, 1987, at a weighted average award value of $23.14 each.

Eligible employees could elect, under the Company's Stock Purchase and Investment Plan or Deferred Incentive Plan, to make deposits of up to ten percent of the employees' profit sharing earnings with the Company matching 50 percent of the deposits up to the first four percent of such earnings.

Expenses incurred under the above compensation plans (excluding base salary) were $33.8 million, $33.9 million and $27.7 million in Fiscal 1987, 1986 and 1985, respectively.

17. Retirement plans

The Company and its subsidiaries have noncontributory defined benefit retirement plans covering substantially all employees. Benefits are based on years of credited service or final average compensation. Substantially all of the plans are funded by annual contributions to tax exempt trusts. Plan assets consist principally of equity securities, corporate obligations and government bonds.

The Company adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (SFAS 87) effective June 1, 1985. Pension cost and related disclosures are determined under the provisions of SFAS 87 for Fiscal 1987 and 1986, and under the provisions of previous accounting principles for Fiscal 1985.

Net pension cost consists of:

	Year ended May 31	
	1987	1986
	(In millions)	
Service cost – benefits earned during the year	$ 11.9	$ 7.2
Interest cost on projected benefit obligation	25.5	23.9
Actual return on plan assets	(81.7)	(96.3)
Deferred gain	49.0	66.8
Amortization of transition asset (a)	(8.1)	(7.8)
Net pension credit	$ (3.4)	$ (6.2)

Pension expense for Fiscal 1985 was $7.8 million.

The funded status of the plans and the prepaid asset recognized on the Consolidated Balance Sheet are as follows:

	May 31	
	1987	1986
	(In millions)	
Plan assets at fair value	$ 454.9	$ 389.7
Projected benefit obligation:		
Actuarial present value of vested benefits	$(224.0)	$(198.8)
Actuarial present value of nonvested benefits	(23.9)	(21.3)
Accumulated benefit obligation	(247.9)	(220.1)
Effect of projected future compensation increases	(71.8)	(70.5)
	$(319.7)	$(290.6)
Plan assets in excess of projected benefit obligation:		
Unrecognized transition asset (a)	$ 70.4	$ 78.5
Unrecognized net gain	62.7	19.4
Unrecognized prior service cost	(4.0)	(.7)
Total unrecognized	129.1	97.2
Prepaid pension asset on the Consolidated Balance Sheet	6.1	1.9
	$ 135.2	$ 99.1

(a) As of June 1, 1985, the date of adoption of SFAS 87, plan assets in excess of the projected benefit obligation became an unrecognized transition asset which is being recognized over 10 to 18 years.

For both May 31, 1987 and 1986, the weighted average discount rate and rate of increase in future compensation used in determining the actuarial present value of the projected benefit obligation were nine percent and six percent, respectively. The expected long-term rate of return on plan assets was ten percent.

The Company and its subsidiaries are also participants in multi-employer defined benefit pension plans covering a small number of hourly employees. The pension cost for multi-employer pension plans was $1.1 million in each of Fiscal 1987 and 1986.

In addition to providing retirement income benefits, the Company and certain subsidiaries provide health care and life insurance benefits for eligible retired employees. Currently, the Company's health care and life insurance benefit plans permit employees to receive those benefits if they reach retirement age while still working for the Company. The cost of such benefits is recognized as expense as claims are paid, which totaled $5.1 million, $4.6 million and $4.0 million in Fiscal 1987, 1986 and 1985, respectively.

Statistical Summary

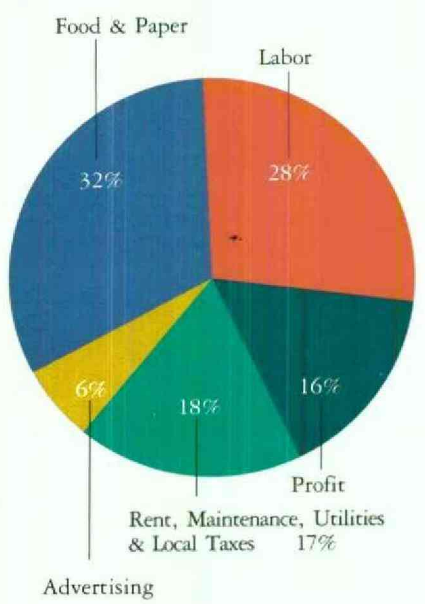
Restaurants	1987	1986	1985	1984	1983
	Year ended May 31				
Systemwide Sales (Billions)	$ 6.0	$ 5.5	$ 4.6	$ 4.0	$ 3.3
(Including sales by franchised restaurants)					
Average Unit Sales (Thousands)					
Fast Food					
Burger King (Domestic)	$1,017	$1,014	$1,009	$ 944	$ 838
Godfather's Pizza	402	368			
Full Service					
Steak and Ale	1,379	1,502	1,518	1,484	1,312
Bennigan's	2,222	2,265	2,206	2,323	2,364
Bay Street	2,024	2,141			
Number of Units					
Fast Food					
Burger King	5,179	4,743	4,225	3,827	3,502
Godfather's Pizza	605	671			
Full Service					
Steak and Ale	180	185	181	179	181
Bennigan's	207	196	177	148	109
Bay Street	14	6	1		
Other	23	30	17	5	2
Total	6,208	5,831	4,601	4,159	3,794
Store Operating Profit (Company Stores)					
Burger King (Domestic)	15.6%	15.2%	15.2%	16.7%	15.2%
Full Service Restaurants	19.2%	20.5%	20.7%	20.7%	21.9%
Foods					
Unit Volume Change	+6%	+16%	+9%	+9%	−1%
Advertising and Promotion (Millions)	$545	$526	$411	$333	$333
Research and Development (Millions)	$ 38	$ 35	$ 31	$ 28	$ 25
Ingredient Cost Index* (1980 = 100)	95	92	101	105	100

*U.S. Government Producer Price Index for Foodstuffs

Domestic Packaged Foods Largest Food Ingredients
(Dollar-Weighted Basis)

Domestic Packaged Foods Operating Profit and Costs
(% of Fiscal 1987 Sales Dollar)

Burger King Store Operating Profit and Costs at Average Company-operated Restaurant
(% of Fiscal 1987 Sales Dollar)



Eleven Year Summary

Annual Growth Rates 10-Yr. 1977-1987	5-Yr. 1982-1987	1-Yr. 1986-1987		1987	1986
			Operating results:		
14%	12%	5%	Net sales	$6,127.8	$5,847.9
15	13	5	Gross margin	1,835.6	1,745.3
17	16	13	Depreciation	197.6	175.3
12	11	4	Research and development	43.2	41.4
17	12	3	Advertising and promotion	636.8	617.8
19	19	(2)	Interest, net	95.6	97.3
11	9	(7)	Earnings before taxes on income	352.5	377.1
11	6	(13)	Net earnings	181.9	208.1
2	–	(1)	Average common shares outstanding (a)	86.7	87.3
9	6	(12)	Net earnings per common share (a)	$ 2.10	$ 2.38
			Changes in financial position:		
15	13	6	Funds provided from operations	$ 457.4	$ 432.5
			New investments – acquisitions	53.2	757.3
10	9	4	– capital expenditures	320.6	308.5
			– other	25.7	51.8
			Issuance of long-term debt	121.5	454.5
			Retirement of long-term debt	179.8	282.8
16	12	14	Cash dividends	83.3	73.0
13	12	15	Cash dividends per common share (a)	.965	.84
			Financial position:		
7	2	10	Current assets	$1,273.6	$1,159.1
16	13	4	Property, plant and equipment, net	1,834.7	1,763.2
13	10	5	Total assets	3,853.1	3,658.8
12	9	9	Current liabilities	1,242.6	1,135.5
13	9	2	Invested capital	2,375.6	2,339.2
14	9	(3)	Long-term debt, including current portion	996.7	1,025.0
13	9	5	Shareholders' equity	1,378.9	1,314.2
11	9	6	Equity per common share (a)	16.00	15.12
			Statistics and ratios:		
			Gross margin to net sales	30.0%	29.8%
			Net earnings to net sales	3.0%	3.6%
			Pretax interest and rent coverage	2.4	2.4
			Pretax long-term interest coverage	4.2	4.3
			Long-term debt to total capitalization	42.0%	43.8%
			Dividend payout	45.8%	35.1%
			Return on average equity	13.5%	16.8%
			Return on average invested capital	10.1%	12.7%
			Market price of common stock–high (a)	$ 46⅛	$ 40⅜
			–low (a)	32⅜	24
			–close (a)	38¾	40⅛
			Shareholders of record (b)	22,800	21,300
			Employees:		
			Domestic Restaurants	81,000	87,800
			Domestic Foods and Corporate	16,200	15,800
			Foreign subsidiaries	7,700	4,500
			Total	104,900	108,100

(a) Per share data and shares outstanding have been restated to reflect a two-for-one stock split in November 1986.

(b) Does not reflect the large number of employees (20,800 at May 31, 1987) individually holding and voting shares through Company benefit plans.

Year ended May 31								
1985	1984	1983	1982	1981	1980	1979	1978	1977
(In millions except per share, shareholders and employees)								
$4,843.4	$4,334.8	$3,850.5	$3,549.7	$3,463.6	$3,207.2	$2,259.6	$1,776.7	$1,585.1
1,377.9	1,219.8	1,096.4	995.4	914.2	850.3	627.8	497.8	443.9
133.9	114.6	105.5	92.8	89.4	78.4	55.2	44.4	40.4
37.1	34.7	29.8	25.9	21.3	19.4	17.3	14.5	14.3
473.7	390.6	378.7	360.5	314.6	286.3	183.3	142.6	136.7
53.0	44.2	39.4	39.3	65.6	58.2	26.5	19.0	16.2
340.2	303.7	230.2	228.0	201.9	191.8	160.3	142.1	123.8
191.8	169.8	138.9	136.3	119.6	104.7	83.5	72.5	62.5
86.8	86.9	86.9	86.7	80.4	80.2	72.3	70.1	69.7
$ 2.21	$ 1.95	$ 1.60	$ 1.57	$ 1.49	$ 1.31	$ 1.16	$ 1.04	$ .90
$ 360.6	$ 312.5	$ 243.4	$ 247.6	$ 226.8	$ 182.1	$ 152.5	$ 129.5	$ 114.2
154.2	84.9	–	22.5	25.2	5.4	135.8	–	–
327.1	282.4	243.9	208.5	226.5	254.1	230.2	134.1	120.9
78.0	50.7	36.0	54.8	30.6	12.6	29.5	21.7	8.2
219.3	54.2	30.2	35.2	98.3	79.3	154.8	63.3	63.8
132.5	65.1	73.7	47.7	37.9	28.7	15.8	30.9	27.4
65.8	58.9	52.5	47.2	38.7	33.5	26.4	21.4	18.7
.76	.68	.61	.55	.48	.42	.37	.31	.28
$ 921.5	$1,071.8	$1,021.6	$1,133.0	$ 989.9	$ 938.8	$ 906.6	$ 680.6	$ 624.9
1,403.0	1,193.0	1,053.2	1,009.0	950.6	857.4	741.5	486.5	428.8
2,778.5	2,608.3	2,366.6	2,428.3	2,174.5	1,983.7	1,804.5	1,282.8	1,139.1
744.1	886.4	704.9	816.5	687.6	680.1	629.8	461.9	413.6
1,853.9	1,643.6	1,561.6	1,538.0	1,404.9	1,246.8	1,109.3	763.8	680.9
688.5	597.4	605.2	648.0	657.7	582.3	531.6	311.7	279.3
1,165.4	1,046.2	956.4	890.0	747.2	664.5	577.7	452.1	401.6
13.43	12.11	11.05	10.26	9.30	8.29	7.37	6.46	5.74
28.4%	28.1%	28.5%	28.0%	26.4%	26.5%	27.8%	28.0%	28.0%
4.0%	3.9%	3.6%	3.8%	3.4%	3.3%	3.7%	4.1%	3.9%
2.8	2.7	2.3	2.3	2.2	2.3	3.0	3.6	3.7
6.2	5.5	4.4	4.4	4.7	5.1	5.6	6.3	6.5
37.1%	36.3%	38.8%	42.1%	46.8%	46.7%	47.9%	40.8%	41.0%
34.3%	34.7%	37.8%	34.6%	32.4%	32.0%	31.6%	30.0%	29.9%
17.3%	17.0%	15.0%	16.6%	16.9%	16.9%	16.2%	17.0%	16.6%
12.9%	12.7%	11.2%	11.6%	11.1%	10.9%	10.8%	12.0%	11.6%
$ 27½	$ 20¾	$ 15⅜	$ 11¾	$ 11½	$ 10⅜	$ 12	$ 10⅜	$ 11⅛
17¼	13⅞	9¼	8¾	7⅞	6¾	8	8⅜	8⅝
27⅜	19	14⅜	11⅛	10¼	8	8⅛	9⅜	8⅞
20,900	20,800	19,100	20,200	20,700	21,200	20,000	14,300	14,300
74,400	61,400	41,500	40,400	44,100	42,200	42,000	31,900	29,200
14,200	14,200	11,200	11,400	12,800	13,900	12,800	9,400	8,200
4,300	3,800	3,500	3,400	3,100	3,400	3,300	3,000	3,000
92,900	79,400	56,200	55,200	60,000	59,500	58,100	44,300	40,400

Board of Directors

W. Michael Blumenthal, *2, 4*
Chairman of the Board and Chief Executive Officer, Unisys Corporation (information systems),
Detroit, Mich.

Donald F. Craib, Jr., *2, 4, 5*
Retired Chairman of the Board, Allstate Insurance Companies (property/casualty and life insurer),
Northbrook, Ill.

Allen F. Jacobson, *1, 2, 4*
Chairman of the Board and Chief Executive Officer, Minnesota Mining and Manufacturing Company (diversified manufacturer),
St. Paul, Minn.

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

James W. McLamore, *3, 4, 6*
Chairman Emeritus, Burger King Corporation,
Miami, Fla.

Kenneth A. Macke, *1, 4, 5*
Chairman of the Board and Chief Executive Officer, Dayton Hudson Corporation (diversified retailing),
Minneapolis, Minn.

Willys H. Monroe, *4, 5, 6*
President, Willys H. Monroe, Inc. (management consulting),
Chicago, Ill.

Paul S. Gerot,
Chairman Emeritus

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Retired President, Continental Illinois Corporation and Continental Illinois National Bank and Trust Company,
Chicago, Ill.

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

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

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

William H. Spoor, *1, 2, 4*
Chairman Emeritus,
The Pillsbury Company

John M. Stafford, *1, 2*
Chairman of the Board,
President and
Chief Executive Officer,
The Pillsbury Company

Peter G. Wray, *3, 4*
Chairman of the Board,
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*

Officers

Corporate Officers

John M. Stafford
Chairman of the Board, President and Chief Executive Officer

J. Jeffrey Campbell
Executive Vice President and Chairman, Restaurants Group

Roger L. Headrick
Executive Vice President and Chief Financial Officer

Jerry W. Levin
Executive Vice President, Corporate Development and Chairman, The Häagen-Dazs Company

Thomas R. McBurney
Executive Vice President and Chairman, U.S. Foods

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

James R. Behnke
Senior Vice President, Growth and Technology

Richard T. Crowder
Senior Vice President, Corporate Risk Officer and Executive Vice President, Restaurants Group

Herbert D. Ihle
Senior Vice President, Controller and Treasurer

Timothy C. Sullivan
Senior Vice President, Human Resources

Russell J. Bragg
Vice President and Group Vice President, Grain Merchandising

Kyle T. Craig
Vice President and Chairman and Chief Executive Officer, S&A Restaurant Corp.

Kent C. Larson
Vice President and President, U.S. Foods

John L. Morrison
Vice President and President, International Foods

Gerald L. Olson
Vice President, Government Relations

Charles H. Gauck
Corporate Secretary

Staff Officers

John E. Bohan
Vice President, Pension Investments

Terry W. Bowmaster
Vice President, Strategic Planning

Michael D. Ellwein
Vice President and Assistant General Counsel

Jerry L. Ford
Vice President, Administrative Services

John M. Hammitt
Vice President, Information Management

Glenn W. Jeffrey
Vice President, Executive and Organization Development

Kenneth A. Johnson
Vice President and Tax Counsel

John T. Kirkland
Vice President, International Acquisitions

Gerald T. Knight
Vice President and Deputy Controller

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

Charles H. McGill
Vice President, Mergers and Acquisitions

Jack H. Morris
Vice President, Investor Relations

James T. Petersen
Vice President, New Concept Development

Dan C. Rengers
Vice President, Industrial Relations

Mahlon C. Schneider
Vice President and Assistant General Counsel

Johnny W. Thompson
Vice President, Public Relations

Ralph O. Thrane
Vice President, Acquisition Development and Analysis

Carol B. Truesdell
Vice President, Community Relations

Barbara E. Buisman
Assistant Secretary

George V. Rux
Assistant Treasurer

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 Trust Company, Inc.
Third Floor, First Trust Center
180 East Fifth Street
St. Paul, MN 55101
Telephone (612) 223-7719

Annual Meeting
The annual meeting of The Pillsbury Company will be held at the Ordway Music Theatre, 345 Washington Street, St. Paul, Minnesota, at 2:00 p.m. Central Daylight Time, Thursday, September 10, 1987.

All shareholders are invited to attend. Those unable to do so may listen to the proceedings by calling 1-900-410-3663 between the hours of 2:00 and 3:00 p.m. This is not a toll free number and persons using the service will be charged 50 cents for the first minute and 35 cents for each additional minute. The service provides one-way communication only; callers can listen but cannot be heard.

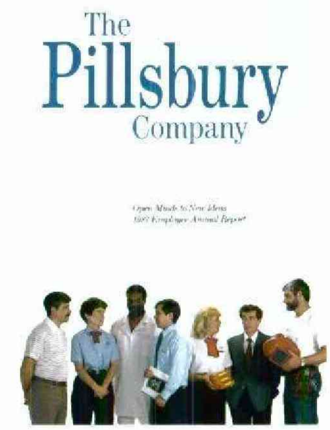
Shareholder Inquiries
Shareholders interested in the current progress of the Company are invited to telephone Investor Relations at (612) 330-8686.

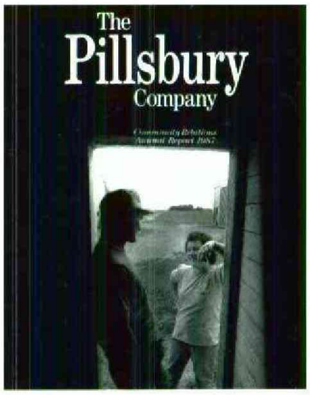
Stock Listings
Pillsbury common stock is listed on the New York, Pacific, Midwest and London Stock Exchanges under the symbol PSY. Options are traded on the American Stock Exchange.

Dividend Reinvestment
An Automatic Dividend Reinvestment Plan permits shareholders to reinvest their dividends in Pillsbury common stock automatically and conveniently without service charges or brokerage fees. In addition, participating shareholders may make limited periodic cash investments for the purchase of additional shares of Pillsbury common stock on the same basis. The Plan is voluntary and shareholders may join or withdraw at any time. Full details about the Plan are available by writing to:
First Trust Company, Inc.
Attn: Reinvestment Services
P.O. Box 3002
South Hackensack, NJ 07606

Other Available Reports
Additional reports on The Pillsbury Company and its activities are available to shareholders without charge by writing to Investor Relations at the Company's general offices. The reports available are:

- *Form 10K*, an annual report filed with the Securities and Exchange Commission.
- *Open Minds to New Ideas, 1987 Employee Annual Report.*
- *Community Relations Annual Report 1987*, covering the Company's contributions and gift-giving policy.





Restaurants

Chairman
J. Jeffrey Campbell

Executive Vice Presidents
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Richard T. Crowder

Burger King USA

President
Charles S. Olcott

Executive Vice Presidents
Peter J. Campisi
William J. Gill
Mitchel E. Rhoads
Richard T. Snead
Richard J. Trutz
Joel J. Weiss

Senior Vice Presidents
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Stephen A. Finn
George E. Mileusnic
Robert H. Sorensen
Marc Weinstein

Region Vice Presidents
Ronald S. Busch
C. Donald Dempsey
Robert E. Gourley
Robert A. Gumm
George E. Miller
Kevin K. Moriarty
Christy A. Placzek
Frank G. Rackstraw
James D. Stoops
Donald Wollan

Vice Presidents
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Eugene D. Feola
John E. Foley
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Gary C. List
Michael H. McCaffrey
Wayne A. Saunders
John A. Winkler

Burger King International

President
C. Ronald Petty

Region Vice Presidents
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Adalberto Feria
Thomas A. Morrell
John M. Rollo

Vice President
Jack Robinson

Distron

President
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Senior Vice Presidents
Donald G. Manson
Harold J. Patrick

Vice Presidents
Raymond J. Giambuzzi
John B. Prater

S&A Restaurant Corp.

Chairman
Kyle T. Craig

President
Donald J. Slater

Executive Vice President
Roger F. Thomson

Senior Vice Presidents
F. Lane Cardwell
Jack C. Fitch
Robert M. Harnett
Dennis L. Hood
Alan R. Palmieri
Robert S. Svehlak

Vice Presidents
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Nicholas A. Castaldo
Levy H. Curry
Marvin L. Salsbury
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Godfather's Pizza, Inc.

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Vice Presidents
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Larry P. Gadola
Charles E. Henderson
William C. Methven, Jr.
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Leah Evans Peters
Ricardo Puente
Spencer Wiggins

Quik Wok, Inc.

President
Anthony M. Lavely

Vice President
Vanda M. Davey

Foods

U.S. Foods

Chairman
Thomas R. McBurney

President
Kent C. Larson

Vice Presidents
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Daniel C. Barnett
Howard E. Bauman
Thomas J. Cardinal
John E. Dixon
Diana L. Doshan
Gary M. Eastburn
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L. Thomas Gartner
William W. Hay
William D. Howe
Gary F. Klingl
Philip J. Lindau
Robert L. Lindsay, Jr.
Daniel J. Locke
Warren G. Malkerson
Russell S. Mentzer
W. Richard Nickel, III
Donald A. Osell
Michael J. Paxton
William N. Priesmeyer
Anthony L. Scherber
Steven Schmidt
Jimmy A. Shadler
Kenneth D. Snider
Rose W. Totino
Kenneth J. Valentas
Virginia L. Ward
Thomas N. Wilkolak
Carl Wilson
Lawrence P. Youngblood

Grain Merchandising

Group Vice President
Russell J. Bragg

Vice Presidents
Donald E. Brummer
James A. Woerner

International Foods

President
John L. Morrison

Vice Presidents
Josiah A. Flournoy
Grahame R. Francis
John C. Lenker
Donald E. Loadman
John H. Watson

Country Managers
William G. Bullis, Jamaica
Calvin Chang, Hong Kong
Rocky W. Chen, Taiwan
Hans-Joachim Denecke, West Germany
Michael S. Dingee, Venezuela
J. Thomas Kirchner, Mexico
Don Moraza, Philippines
Bruce A. Noble, United Kingdom
Gerald A. O'Connor, Guatemala
Richard A. Peddie, Canada
Victor Sherrer, France/Belgium/Spain

The Häagen-Dazs Company

Chairman
Jerry W. Levin

President
Mark L. Stevens

Senior Vice President
Benton Silloway, Jr.

Vice Presidents
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Beth L. Bronner
Rodrick E. Heien
James Richards
Douglas R. Schrank
Matthew J. Sitkowski

The Pillsbury Company

Pillsbury Center

Minneapolis, Minnesota 55402

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